Report No. 39762-PK

Pakistan
Balochistan Province

Public Financial Management and Accountability Assessment

May 2007

Government of Balochistan and Development Partners

Government of Balochistan | The World Bank Group | The European Commission | DFID Department for International Development — UK's Department for International Development | Asian Development Bank

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ACRONYMS AND ABBREVIATIONS

ADB	-	Asian Development Bank
AG	-	Accountant General
AGA	-	Autonomous Government Agencies
AGP	-	Auditor General of Pakistan
BDA	-	Balochistan Development Authority
CFAA	-	Country Financial Accountability Assessment
CGA	-	Controller General of Accounts
COA	-	Chart of Accounts
COFOG	-	Classification of the Functions of Government
DAC	-	Departmental or District Accounts Committee
DAO	-	District Accounts Officer
DDO	-	Drawing and Disbursement Officer
DDWP	-	District Development Working Party
DFID	-	Department for International Development (UK)
DG	-	Director General
EC	-	European Commission
FD	-	Finance Department
FMC	-	Fiscal Monitoring Committee
FY	-	Fiscal Year
GFS	-	Government Financial Statistics
GoB	-	Government of Balochistan
GoP	-	Government of Pakistan
IPSAS	-	International Pubic Sector Accounting Standards
LG	-	Local Government
(B)LGO	-	(Balochistan) Local Government Ordinance
M1	-	Scoring Method No. 1
M2	-	Scoring Method No.2
MDA	-	Ministries, Departments and Agencies
MOF	-	Ministry of Finance
MTBF	-	Medium Term Budget Framework
NAM	-	New Accounting Model
NBP	-	National Bank of Pakistan
P&DD	-	Planning and Development Department
PAAS	-	Pakistan Audit and Accounts Service
PAC	-	Public Accounts Committee
PAO	-	Principle Accounting Officer

PCF	-	Provincial Consolidated Fund
PDWP	-	Provincial Development Working Party
PE	-	Public Enterprises
PEFA	-	Public Expenditure and Financial Accountability
PFC	-	Provincial Finance Commission
PFM	-	Public Financial Management
PFMAA	-	Provincial Financial Management and Accountability Assessment
PIFRA	-	Project to Improve Financial Reporting and Auditing
PMF		Performance Measurement Framework
P-PRSP	-	Provincial Poverty Reduction Strategy Paper
PSDP	-	Public Sector Development Program
RA	-	Revenue Administration
S&GAD	-	Services and General Administration Department
SBP	-	State Bank of Pakistan
SP	-	Sub provincial
SOE	-	State Owned Enterprise
TMA	-	Tehsil Municipal Administration
TO	-	Tehsil Officer
UNDP	-	United Nations Development Program

BALOCHISTAN – PUBLIC FINANCIAL MANAGEMENT AND ACCOUNTABILITY ASSESSMENT STUDY

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Summary Assessment

1. With the deepened engagement of the development partners at sub-national levels, including in Balochistan, the adoption of a more detailed and prescriptive approach to measuring the performance of the PFM systems has become increasingly significant. It was against this background that an assessment, using the pilot PEFA methodology was first carried out in Pakistan for the province of Punjab, and completed in 2005. The final PEFA-PFM PMF, approved in June 2005 by the PEFA partners, being a coherent and comprehensive PFM performance assessment tool, then became available for use as a basis for assessing the PFM performance in Balochistan. The assessment framework provides a four-grade rating mechanism for measuring the attributes of PFM against detailed operational performance benchmarks provided in the assessment guidance. The outcome of the assessment provides a useful mechanism for charting a path towards demonstrably improved PFM performance. Based on that rating scheme, the review has assessed the indicators for the GoB at this stage as set out in this report. The deficiencies identified have an impact on aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery in the province. The assessment highlights the need for reforms in specific areas of budget development, budget execution, accounting, external audit and legislative oversight. Following this snapshot-based assessment, a summary diagnostic (annex 1) was carried out to assess the factors that have hampered performance and to draw proposals for improvement that may be considered in designing a future PFM reform strategy. Quite a lot of the future improvement in all of these areas depends on the pace of implementation and success of PIFRA in the province, as well as on the successful implementation and completion of the devolution reforms process.

2. This PEFA assessment underscores the gains made in the existing reforms as well as reforms that are already underway in the province. The systematic implementation of the projects and programs, together, would support the development of a strong basis for implementing PFM improvement through budgetary planning, budget execution (including procurements, payments, accounting, and in-year reporting), year-end financial and fiscal reporting, and external oversight. The report also highlights the symptomatic concerns and challenges, including some of the organizational reforms that have been urgent for some time but for which resolution has been difficult because of disagreements between parties (e.g. the duality of control of DAOs and District Treasuries' functions). Devolution has many monitoring and internal controls requirements under the LGO but more progress is needed to create increased compliance. Similarly the roll-out of the new audit methodology developed by the Auditor General has been affected by slow quality assurance arrangements that are apparent in the delayed publication of the audit results. The net effect is that the structural elements for reform are present but implementation is fairly slow and the Government should consider how it can be more effective in its reform efforts. Certainly an annual self-assessment using this framework can provide a monitoring tool provided there is a dynamic reform taskforce with strong government support.

3. The assessment in this report examines the extent to which the performance of the assessed PFM system appears to be supporting or affecting the overall achievement of budgetary outcomes at the three levels, i.e. aggregate financial discipline, strategic allocation of resources and efficient service delivery. The assessment results show the integrated nature of the PFM deficiencies - budget outcomes differ greatly from budget plans because accounting systems do not provide timely data. Accounting systems need to be strengthened as audits concentrate on improper transactions rather than the systems of accounting and reporting. Audit processes are less effective because legislative scrutiny of audit reports has been slow in the past. The compliance with rules and procedures as well as the enforcement process also needs to be improved at the levels of the line departments and agencies. While the budget process is orderly and the budget is prepared on the basis of the a new chart of accounts which is compliant with good international standard and practice (IMF GFS), service delivery is not measured or monitored because output or performance-based budgets are not used, and the accounting systems are also not well-structured in reporting on resources received and used by service delivery operations. Legislative scrutiny of the budget and the budget results is less than effective if the executive were to be held to account for their budget performance. The audited annual accounts and audit reports are not presented to the legislature on timely basis and the audit quality, though improved, has yet to achieve the required expectations. Review of audited accounts and audit reports is equally not timely as the

Public Accounts Committee, based on its current membership constitution, has inherent difficulties to be fully effective. This brings us to the fact that there needs to be focused pressure from within the system to improve performance in the area of legislative scrutiny. Timely implementation and enforcement of various actions that arise out of the PFM system needs to be brought-in and institutionalized. Some of the specific recommended actions and institutional measures required to reverse the weak performances have been highlighted in the summary diagnostic (Appendix 1). These constitute the key areas for further intervention and include, inter alia, the following:

- Budget development processes to improve budget credibility: - as budget out-turns differ markedly from intentions, and multi-year budget processes have not been systematically maintained, effective service delivery consistent with the policy intent of government has been impaired.

- Commitment and fiscal risk recording processes: - as comprehensive payment arrears information is not maintained, and the fiscal risks associated with other public sector entities outside core government as well as those of lower levels of government are not consolidated, reported, and controlled, the exposure of the provincial government in terms of potential fiscal risk is heightened.

- Transparency and effectiveness in tax assessments and revenue collection measures (particulary province-own domestic revenues) are key areas where major weaknesses are found. There is the attendant need for more information on arrears, vis-à-vis assessments, in order to support the revenue estimate side of the budget hence prevent loss of control over fiscal deficits.

- Internal controls over payrolls and expenditures need improvement through the upgrading of TOs to proper District Accounts Offices and establishment of internal audit units to improve accounting and ensure funding reaches service delivery areas properly.

- Procurement reforms - rules based procurement reforms are crucial to effective government performance for transparent and cost-effective growth. A coherent system of grievances redressal has not been effectively built, and transparently and equitable applied in the procurement system.

- While plans for improving accounting, audit, and PAC timeliness are in process, they need full provincial and national government support to achieve the service delivery objectives and adequate executive accountability norms. Arrangement at the districts' level are weakest as the implementation of the spirit and letter of the devolution strategy has yet to be fully complied with. This is not Balochistan centric but a country-wide bottleneck in the overall PFM framework.

- While budget support operations financed by donors use government budgeting, accounting, and reporting systems, donor-funded investment projects are largely 'ring-fenced' and do not use the government's reporting basis as defined by the approved government chart of accounts.

Chapter 1: Introduction

1.1 The Country Financial Accountability Assessment (CFAA) – Pakistan (December 2003) - concluded that there are substantial opportunities for consolidating current reforms throughout Pakistan and for introducing additional reforms to further strengthen public financial accountability. This would require sustained policy level commitment at national and provincial levels. This assessment continues on the theme of sustaining reforms by using the PEFA performance indicators framework in order to track and monitor future actual performance against the baseline snap-shot performance ratings.

1.2 Highlighted in the CFAA report were requirements for significant initiatives on all fronts to improve public financial management and accountability, including the implementation of a Medium Term Budgetary Framework (MTBF), improved debt management, poverty reduction expenditures tracking, revenue reforms as well as the need to enhance the pace of implementation of the overarching PFM improvement project - PIFRA. The CFAA also included recommendations relating to the adoption of International Pubic Sector Accounting Standards (IPSAS), improved internal controls, the establishment of functional internal audit, and capacity development through training the line management staff in budget execution and control.

1.3 The Government of Balochistan welcomed the initiative of the World Bank, ADB, DFID and EC in carrying out the PFM assessment as per the PEFA framework. While PIFRA is being executed in Balochistan, the provincial Finance Department is also working on framing new financial rules in order to streamline utilization of funds while ensuring transparency in financial management.

1.4 This document reports on a Public Financial Management and Accountability Assessment (PFMAA) for the province of Balochistan using the PEFA-PFM PMF. The intervention was commissioned jointly by the World Bank, the Asian Development Bank (ADB), UK Department for International Development (DfID) and the European Commission (EC), and it is first of its kind for Balochistan. The report was reviewed at the stakeholders' workshop conducted in Quetta on April 5, 2007 after a series of iterations during dialogue with members of the Provincial Steering Committee, chaired by the Secretary of Finance, Balochistan.

1.5 The assessment was conducted against the 31 Public Financial Management (PFM) performance indicators in accordance with the Public Expenditure and Financial Accountability (PEFA) framework[1]. The framework is based on six pillars of performance in the PFM cycle:

i. **Credibility of the budget –** The extent of budget realism in terms of being implemented as planned.

ii. **Transparency and comprehensiveness –** The coverage of the budget, including the determination of overall fiscal risk, is adequate, and the public has unfettered access to budget and outcomes information.

iii. **Policy-based budgeting –** The extent that budget formulation is in line with the policies of the provincial government.

iv. **Predictability and control in budget execution –** The extent of systematic and predictable budget implementation and the effectiveness and efficiency of expenditure and revenue management and controls.

v. **Accounting, recording and reporting –** The effectiveness and transparency in maintaining and reporting on the public finances and the reliability and adequacy of financial information for management decision-making.

[1] Public Financial Management Performance Measurement Framework, June 2005, PEFA Secretariat, World Bank, Washington DC, USA - PEFA includes World Bank, IMF, European Commission, UK, France, Norway, Switzerland and SPA Strategic Partnership with Africa

vi. **External scrutiny and audit –** The arrangement for, extent and scope of scrutiny of public finances as well as the timeliness and the strength of corrective measures taken.

vii. **Donor practices –** The extent to which donor practices and the management of donor funds impact the PFM systems in the country.

1.6 The indicators are structured into the following categories:

A. **PFM system out-turns**: These indicators capture the immediate results of the PFM system in terms of actual expenditures and revenues by comparing them to the original approved budget, as well as level of and changes in expenditure arrears.

B. **Cross cutting features of the PFM** system: These indicators capture the comprehensiveness and transparency of the PFM system across the whole of the budget cycle.

C. **Budget cycle:** These indicators capture the performance of the key systems, processes and institutions in the budget implementation cycle of the provincial government.

D. **Donor Practices:** These capture elements of donor practices which impact the performance of the provincial PFM system.

1.7 PFM performance has been assessed against each of the indicators by assigning ratings of A to D based on criteria given in the PEFA assessment framework document. The report briefly describes the processes in place in the Province's PFM system and the basis on which the rating has been assessed for each dimension within an indicator as well as the overall rating for the indicator. A rating of 'A' would be an international best practice and that of 'B' a good achievement. Ratings of 'C' and 'D' identify PFM elements that are in relatively greater need of improvements.

1.8 The indicators focus on operational performance of the PFM system rather than on the inputs that enable the PFM system to reach a certain level of performance. The report is the basis for subsequent diagnostic studies of relatively weaker areas of PFM and does not itself contain any recommendations for the reform agenda of the Government of Balochistan. The assessment would substantially assist in establishing a guiding basis for performance improvements through the various reform programs with a view to creating enhanced impact on the overall PFM environment.

1.9 This report has been prepared after detailed deliberations with relevant stakeholders. The process began with a stakeholders' workshop in Quetta on 3 August 2006 where the objectives and processes of the assessment were shared with the participants in the context of the PEFA framework. Large volumes of relevant data were gathered during field research and discussions since August 2006.

1.10 The task team comprised Co-task Leaders Ismaila B. Ceesay, Sr. Financial Management Specialist, World Bank, David Johnson, Sr. Governance Advisor, UK Department for International Development (DFID); Sandra Nicoll, Sr. Governance Specialist, Asian Development Bank (ADB); and Thorsten Bargfrede, Second Secretary, European Community (EC). Asif Ali, Sr. Procurement Specialist, World Bank, Kaspar Ritcher and Hanid Muktar, Sr. Economists, World Bank, Waqas ---, Asian Development Bank (ADB), Furqan Ahmed Saleem, Financial Management Specialist, World Bank, Saeeda Sabah Rashid, Financial Management Specialist, World Bank, Muhammad Zeeshan Tariq (National Consultant), and Michael Jacobs (International Consultant) assisted with the team in the development of the assessment report. Altaf Ahmad, SARFM Program Assistant, World Bank, provided the logistical and administrative support, and Professor Dr. Khawaja Amjad Saeed Khawaja, carried out a review of the draft as well as served as a resource person at the stakeholders' workshop in Quetta.

1.11 The peer reviewers were Julie Lynn, Financial Accountability and anti-Corruption Team, DFID, London; Kathleen Moktan, Director, Capacity Development & Governance Division, ADB, Manila;

Nicola Smithers, Adviser, PRMPS, the World Bank; Jean Louis Lacube, AIDCO, EC; and R. Maggi, EC.

Chapter 2: Background Information for Balochistan

2.1 Description of economic situation

2.1.1 Balochistan is the largest province of the country with 44% (347,000 sq. kms.) of the land area but only 5% of the population (6.5 million). The province is blessed with large deposits of natural resources which are to a great extent unexplored and unutilized. It has a 1100-kilometer coastline which can prove to be an important trade corridor in the region by connecting China and Provincial Asian republics in the north to the sea in the south, with India and Bangladesh in the East. Economic development is needed to deal with significant structural problems, both political and socio-economic, in the province.

2.1.2 The province is comparatively backward, with inadequate health, education and employment facilities. The population is predominantly rural with almost 50% of the total assessed as living below the poverty line[2]. Other socio-economic statistics are: literacy 29.8%, unemployment 33%, and formal labor force participation 25.7%. Revenue resources are predominantly federal with only 6-7% provincial.

2.2 Description of budgetary outcomes

2.2.1 The revenue and expenditure budgets of Balochistan are characterized by sporadic adjustments on a year to year basis due to (a) the very high degree of reliance on the federal government for transfers as a result of the NFC Award; (b) the very low own-revenue potentials which require proper study with a view to enhancing those potentials through improved tax policies, assessment and collection strategies; (c) reasonable good aggregate out-turns in terms of total budgeted revenues vis-à-vis total actual revenue receipts; and (d) poor out-turns in terms of composition of budgeted revenues and expenditures vis-à-vis actual receipts and expenditures in any single year as a result of in-year re-allocations between functional classifications.

2.3 Description of the legal and institutional framework for PFM

2.3.1 As per the Constitution, Federal and Provincial Assemblies authorize expenditures on services to the people that are budgeted to be voted each fiscal year. The range and composition of the services that will be provided are determined each fiscal year by the respective National and Provincial Assemblies. The Constitution also provides for charged or obligatory expenditures on constitutional positions (such as the President, High Court Judges, Chief Election Commissioner, and the Auditor General) as well as for debt servicing. As for the District Governments, the respective *Zila* Councils are the district equivalents of the federal or provincial Assemblies, and they generally perform the same functions.

2.3.2 Public sector bodies are well defined in the financial system by major type of entities such as (i) Departments of the Government administered directly by the Federal and Provincial Governments; (ii) autonomous bodies that are indirectly administered by their respective governments. Government departments are further divided into centralized accounting agencies and self-accounting agencies. Autonomous bodies are also divided into two categories: (i) statutory bodies established for non-profit objectives; and (ii) public sector enterprises.

2.3.3 The 1973 Constitution was far reaching in its emphasis on financial management and provides (in Articles 79, 166, 168 and 169) for the following three enabling legal frameworks:

i) On public finance — this law is expected to prescribe how the budgets would be prepared and monitored, and also the evaluation mechanisms for assessing the performance of the

[2] Balochistan Poverty Reduction Strategy Paper, November 2003.

government vis-à-vis the resources placed at its disposal, and internal controls over finances;

ii) On public debt management — this law is expected to be designed to prescribe the objective criteria for borrowing (both internally and externally) with a view to minimizing the probability of misuse or waste of borrowed resources, to restrict the quantum of aggregate borrowings both in absolute and relative terms to ensure that debt servicing remains within reasonable limits (sustainability), and to ensure transparency and efficient management of debt; and

iii) On public sector audit — this law is expected to be structured to provide the basis for independent and competent verification of the truth and fairness of representations of the executive with regard to their stewardship of public funds and achievements concerning the use of allocated resources.

2.3.4 There is no separate Public Finance Law in Pakistan. The Constitutional provisions are, in themselves, quite detailed and provide the enabling operational basis for public finance management in the federation. However, on an annual basis, an Appropriation Law is promulgated to cover aspects relating to public expenditures in pursuance of the annual budget; also a Finance Act that covers public revenues in pursuance of the annual budget is promulgated annually.

2.3.5 In respect of the Public Debt Management Law, the federation has promulgated a Fiscal Responsibility and Debt Limitation Law (FRDL) that covers the thrust of what the Constitution envisaged. This Law is being followed across the federation.

2.3.6 As regards the Public Sector Audit Law, there existed the Pakistan (Audit and Accounts) Order 1973, P.O. 21 of 1973 that was repealed in 2001 and replaced by two sets of legislation that also caused the bifurcation of the audit and accounts - the AGP and CGA Ordinances of May 2001. The foundation for these latter laws is contained in Article 169 of the Constitution and they govern the audit and accounting processes in Balochistan as well as the other provinces. The General Financial Rules and the Treasury Rules, which are largely obsolete, require updating for consistency with the renewed GoB operational accountability practices.

2.3.7 Budget preparation has historically been primarily short-run, input focused, and incremental with little prioritization of expenditures. The use of the budget as a tool for implementing strategies towards achievement of policy goals of the government has been limited.

2.3.8 The basic framework for assignment of fiscal powers and distribution of revenues between the Federation and Provinces (including districts) is laid down in the Constitution. To allow for the distribution of fiscal resources, a divisible pool has been created whereby the net proceeds of specified taxes collected by the Federal Government are pooled and the Federal Government and the Provincial and Local Governments share in the pool. Under the Local Government Ordinance 2001, a number of public service functions have been devolved to local governments elected at the district and sub-district levels. Fiscal Commissions have been established to manage the apportionment of the shares in the divisible pools.

2.3.9 In Balochistan, the provincial line departments prepare their respective salary and non-salary budgets. The non-salary is classified as development and non-development. The Finance Department (FD) then compiles the annual budget. The Provincial Planning and Development Department (P&DD) prepares an annual Public Sector Development Program (PSDP) which makes up the total development budget for the province. PSDP planning and execution has not been devolved to the local governments at the district and sub-district (Tehsil) levels. The Provincial Finance Commission (PFC) in the FD makes the award for provincial budget transfers to the district governments. In 2006, the PFC award has been announced for a period of three years. The provincial government maintains a provincial consolidated fund account, public account, and food account with the State Bank of Pakistan. Upgrading of Balochistan Treasuries to District Accounts Offices (DAO) is planned but no progress towards implementation is yet realized.

2.3.10 Development projects are prepared in line with the provisions of the annual PSDP and are placed before competent forums for approval. Small and medium projects are scrutinized at the Departmental Development Working Party and large projects are approved by the Provincial Development Working Party (PDWP). Releases are made by the FD on a needs and priority basis in light of the releases authorized by the P&DD. The DSE is chaired by the Secretary of the concerned department who is also the Principal Accounting Officer (PAO). The PDWP is chaired by the Additional Chief Secretary (Development).

2.3.11 The executive-approved budget is presented to the provincial legislative assembly along with the demands for appropriations. The revised budget (including supplementary appropriations) of the preceding fiscal year is also presented to the assembly. The budget book and supplementary documents are debated by the legislative assembly and approved following the due process. The provincial releases are made directly to the projects and schemes through the executing agencies through their respective 'Budget' Drawing and Disbursement Officers (DDOs). The releases for District Governments are made in accordance with PFC award and the budgets are locally scrutinized and approved by the District Councils following the intimation of projected annual releases.

2.3.12 The treasury offices maintain the accounts at the district level for all the releases. The provincial Accountant General maintains the appropriation and finance accounts. The reconciliation of accounts at the provincial and district levels is faced with certain challenges due to the acute lack of capacity at treasury offices as well as the non-compliance of the line departments with the accounting procedures and requirements.

2.3.13 Audits of regulatory compliance and the annual district and provincial accounts are performed by the Auditor General of Pakistan (AGP) every year. The audit paragraphs (advance audit paras.) making up the audit report are scrutinized by the Departmental Accounts Committees before the adjusted report (draft audit paras.) is forwarded for scrutiny to the Public Accounts Committee (PAC) of the Provincial Legislative Assembly. At the PAC, following due deliberations, the forum can recommend punitive actions such as making recoveries through surcharges, other forms of sanctions, or may drop the audit paras. Following a justification from the concerned quarters that can convince the committee members. They are also responsible for getting their decisions implemented through the relevant departments although the enforcement mechanism is weak or non-existent.

2.3.14 The Administrative Secretary of the concerned department, as the Principal Accounting Officer, has a mandatory task of properly keeping memorandum accounts, monitoring and controlling public expenditures in line with the budget, and ensuring proper financial transactions in the department.

2.3.15 With the new devolution of powers promulgated through Balochistan Local Government Ordinance (BLGO 2001), financial management is required to be decentralized to the district, tehsil and down to the union council levels. Each government tier is supposed to have its own budget planning, implementation, accounting, and financial reporting, as per the rules. The Zila Accounts Committees (ZACs) are being formed at the districts and tehsils; however there is little progress in establishing these committees across the province, and neither are the ones established effectively functioning. There is a great confusion over the interpretation of rules, regulations and powers as delegated by the BLGO 2001. The situation is perhaps worst in Balochistan as compared to the other provinces as the implementation of BLGO 2001 is fragmentary, with the Tehsil Municipal Administrations and district governments not yet endowed the requisite autonomy as envisaged in the Ordinance. There is a requirement of great importance to get the district governments report their accounts in a timely and structured manner to the FD. Reconciliation level for expenditures stands at an average of only 68% which is considerably low.

Chapter3: Assessment of the PFM systems, processes and the institutions

A Budget Credibility

PI-1 Aggregate expenditure out-turn compared to original approved budget
Overall rating 'B'

3.1 The ability to implement the budgeted expenditure is a crucial factor in supporting the government's ability to deliver the public services for the year as expressed in policy statements, output commitments and work plans. The indicator reflects this by measuring the actual total expenditure compared to the originally budgeted total expenditure (as defined in government budget documentation and fiscal reports) but excludes the expenditure category over which the government will have less direct control - (a) debt service payments.

3.2 Government of Balochistan provided budget sets for the last three fiscal years, 2003-04, 2004-05 and 2005-06 together with the appropriation accounts prepared by the Accountant General.

Score	Minimum Requirements (Scoring Method M1)
A	(i) In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 5% of budgeted expenditure.
B	(i) In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 10 % of budgeted expenditure.
C	(i) In no more than one of the last three years has the actual expenditure deviated from budgeted expenditure by more than an amount equivalent to 15% of budgeted expenditure.
D	(i) In two or all of the last three years did the actual expenditure deviate from budgeted expenditure by an amount equivalent to more than 15% of budgeted expenditure.

3.3 The scoring method (M1) is used against this indicator. As per the above laid down criteria for scoring / rating, the indicator is rated as 'B' since in no more than the year 2005-06 has the actual expenditure deviated from the budget expenditure by an amount equivalent or more than 10% of the budgeted expenditure. The following table shows greater deviation in the last two fiscal years.

3.4 Details are provided below:[3]

Expenditure **(Rs. in millions)**

Particulars	2003-4	2004-5	2005-6
Budgeted	30,519	37,682	43,227
Actual	29,622.7	33,885	38,921
Variance	2.9%	10.07%	9.96%

Source: Budget White Paper (excluding debt servicing)

3.5 The following are among a few pertinent factors underlying the deviations between actual expenditure and the originally approved budgeted expenditure:

[3] Appropriation Accounts from Accountant General for the three financial years – The figure reflects the total expenditure (current and development)

i. The fiscal releases at the provincial and district level are greatly reliant on Federal transfers. Therefore the provincial onward releases to the districts and the sub-districts can only be made after the province receives federal transfers under the National Finance Commission (NFC) Award.

ii. The federal government budgeted transfers differ from the actual transfers. Since the revenue budget of the province is heavily dependant on the federal releases, lesser releases against estimates leads to creating a burden on the financial management system of the province.

iii. The Annual PSDP is prepared entirely by the provincial government and includes schemes to be implemented both by provincial district governments. Even the development funds given directly by the Federal and Provincial governments have strict target areas. Therefore, the districts are not spending as per their assessed needs and that major spending tends to occur only towards the last quarter.

iv. The salary and non-salary recurrent budgets are released earlier than the development budget. For the districts, salaries and other expenditures are made in accordance with the PFC Award for the year.

PI-2 Expenditure out-turn composition compared to original approved budget

Overall Rating 'C'

3.6 Where the composition of expenditures varies considerably from the original budget, the budget will not be a useful statement of policy intent. Measurement against this indicator requires an empirical assessment of expenditure out-turns against the original budget at a sub-aggregate level. As budgets are usually adopted and managed on an administrative (departmental) basis, the administrative basis is preferred for assessment, but a functional basis is an acceptable alternative. This is an important indicator to assess the extent of budget realism for different budget heads (including development and non-development). At administrative level the variance is to be calculated for the main budgetary heads of departments, independent agencies, which are included in the approved budget. If the functional classification is used, it should be based on the GFS/COFOG main functions.

3.7 Changes in the overall level of expenditure will translate into changes in spending for administrative (and functional) budget lines. This indicator measures the extent to which reallocations between budget lines have contributed to variance in expenditure composition beyond the variance resulting from changes in the overall level of expenditure. To make that assessment requires that the total variance in the expenditure composition is calculated and compared to the overall deviation in primary expenditure for each of the last three years. The variance is calculated as the weighted average deviation between actual and originally budgeted expenditure calculated as a percent of budgeted on the basis of administrative or functional classification, using the absolute value of deviation.

Score	Minimum Requirements
A	(i) Variance in expenditure composition exceeded overall deviation in primary expenditure by no more than 5 percentage points in any of the last three years.
B	(i) Variance in expenditure composition exceeded overall deviation in primary expenditure by 5 percentage points in no more than one of the last three years.
C	(i) Variance in expenditure composition exceeded overall deviation in primary expenditure by 10 percentage points in no more than one of the last three years.
D	(i) Variance in expenditure composition exceeded overall deviation in primary expenditure by 10 percentage points in at least two out of the last three years.

3.8 The average variance calculated (see below) on the basis of the PEFA PFM framework criteria (above) shows poor performance since, in one of the three years, the average variance in expenditure composition has exceeded the overall deviation in primary expenditure by 10 percent. The rating of ‘C’ is therefore assigned to the indicator.

3.9 The tables given below show improvements in budget realism for the financial years 2004-05 and 2005-06 as compared to the financial year 2003-04. The expenditure adjustments are more strongly apparent for general administration, community services, social services, economic services and subsidies.

Expenditure by category **(Rs. in millions)**

Account Head/FY	2003-4 Budget	2003-4 Actual	2004-5 Budget	2004-5 Actual	2005-6 Budget	2005-6 Actual
Total Expenditure	33,335	33,454	41,231	36,250	46,378	41,732
A. Current Expenditure	24,035	24,415	28,451	26,205	34,612	30.330
General Administration	2,758	2,159	3,190	2,116	6,887	3,284
Law & Order	2,736	3,060	3,222	3,146	3,442	3,804
Community Services	853	1,035	951	1,138	1,007	1,200
Social Services	1,904	2,044	2,844	2,157	3,064	2,517
Economic Services	3,002	1,791	3,742	3,942	4,216	4,179
Subsidies	1,000	1,920	560	531	627	468
Debt servicing	2,816	2,642	3,549	2,365	3,151	2,811
Provincial Allocable/GST	8,966	9,763	10,393	10,811	12,217	12,069
B. Development Exp.	9,300	9,039	12,780	10,045	11,766	11,402

Variances

	2003-4 Variance	2004-5 Variance	2005-6 Variance
Total Expenditure	**0.35%**	**12%**	**10.02%**
Current Expenditure	1.57%	7.89%	12.37%
General Administration	21.7%	33.66%	52.32%
Law and Order	11.8%	2.36	10.5
Community Services	21%	19.63%	19.16%
Social Services	7.36%	24.14%	17.88%
Economic Services	40%	5.35%	0.87%
Subsidies	92%	5.25%	25.35%
Debt servicing	7.15%	33.35%	10.8%
Provincial Allocable / GST	8.89%	4%	1.21%
Development Expenditure	2.8%	21.4%	3.095%
Wt. Average Variance (excluding debt servicing)	14.53%	14.35%	12.52%

Year	For PI-1 total expenditure deviation	Total expenditure variance	For PI-2 variance in excess of total deviation
2003/4	2.90%	14.53%	11.63%
2004/5	10.07%	14.35%	4.28%
2005/6	9.96%	12.52%	2.56%

PI-3 Aggregate revenue out-turn compared to original approved budget
Overall rating ‘A’ for overall revenue, and 'B' for provincial-own receipts

3.10 Accurate forecasting of domestic revenue is a critical factor in determining budget performance, since budgeted expenditure allocations are based upon that forecast. A comparison of budgeted and actual revenue provides an overall indication of the quality of revenue forecasting and achievement. External shocks may however occur. The calibration allows for a top score even if during one year in the last three, the outturn is substantially different from the forecast - e.g. as a result of a major external shock occurring during budget execution. For this indicator, information is sought from budget execution reports or final government accounts to the extent available. It may well be noted that PEFA does not penalize on budget credibility in respect of revenue receipts out-turn as long as ‘actual’ receipts exceed budgeted receipts.

Score	Minimum requirements
A	Actual domestic revenue collection was below 97% of budgeted domestic revenue estimates in no more than one of the last three years.
B	Actual domestic revenue collection was below 94% of budgeted domestic revenue estimates in no more than one of the last three years.
C	Actual domestic revenue collection was below 92% of budgeted domestic revenue estimates in no more than one of the last three years.
D	Actual domestic revenue collection was below 92% of budgeted domestic revenue estimates in no two or all of the last three years.

3.11 Against the above assessment criteria, the table below shows that only in one year has the actual overall revenue collection gone down by 3.8% to 96.2% of the budget estimate. For two fiscal years (2004-05 and 2005-06) actual receipts in fact exceeded the budgeted receipts by over 10%. On the basis of this, the indicator performance for overall revenues is rated A – i.e. actual revenue is below 97% only in a single year.

3.12 As per table showing provincial-own receipts, the rating is 'B' because in only one (FY 2005-06) out of the three years did actual receipts not fall short of the budgeted receipts by more than 3%.

Revenue receipts (overall) **(Rs. In millions)**

Year	2003-4	2004-5	2005-6
Budget	24,642	26,381	29,171.6
Actual	23,693	29,049	32,208
Revenue difference as % of budget estimates	(-)3.8%	10.11%	10.41%
Actual revenue collection	96.2%	110.11%	110.41%

3.13 The table below shows a breakup of the provincial own revenue receipts for the last three financial years. The actual domestic revenue collection has gone up by more than 50% in 2005-06 as compared to the previous years which all witnessed shortfalls. The main provincial sources of revenue are provincial excise, motor vehicle tax, capital gains tax, property transfers, property tax, entertainment duty, professional tax, hotel tax, trade tax and stamp duties. The federal direct transfers to the provincial government increased for the fiscal years 2004-05 and 2005-06 on an average of 20% each year, compared to the budgeted estimates. One of the important taxes that stands suspended for the last 5 years is the water tax owing to the severe drought that had hit the province in the last couple of years.

Revenue receipts for Balochistan (own resources) **(Rs. in millions)**

Particulars Head	2003-4 Budget	2003-4 Actual	2004-5 Budget	2004-5 Actual	2005-6 Budget	2005-6 Actual
Provincial own receipts	1,536	1,448	1,621	1,538	1,611	2,434
Actual provincial own receipts as a % of budget	**94.3%**		**94.9%**		**151%**	
Direct Transfer	8,127	7,225	7,354	9,150	7,944	9,179
Grants	5,965	6,001	7,145	6,915	7,354	8,095
Shared Taxes	9,012	9,019	10,265	11,445	12,261	12,499
Total	**24,642**	**23693**	**26381**	**29049**	**29170**	**32,208**

PI-4 Monitoring of expenditure payment arrears

Overall rating 'D'

3.14 Expenditure payment arrears are the expenditure obligations that have been incurred by government for which payment to the employee, supplier, contractor or loan creditor is overdue. It constitutes a form of non-transparent financing. A high level of arrears can indicate a number of different problems such as inadequate commitment controls, cash rationing, inadequate budgeting for contracts, under-budgeting of specific items and lack of information.

3.15 Presently, the Government does not keep a consolidated stock of the expenditure payment arrears. However, relevant departments like the civil works and the social sector development departments keep project-wise account of arrears in terms of the accrued expenditure obligations - payments due as per the legal obligation of a procuring agency but not actually made by fiscal year end. The incidences of expenditure arrears occur largely at the TMAs as services are rendered, works completed, and goods delivered by suppliers towards the end of the fiscal year remain unpaid, in a majority of cases, due to liquidity constraints, until budget resources are provided in a succeeding fiscal year. Implementation of the full commitment/obligation recording, control, and management is a requirement under the New Accounting Model to be rolled-out under PIFRA auspices in due course, and this would be able to cater for and track such arrears.

3.16 There is no reliable system available which records the expenditure payment arrears. However, discussions with the civil works department showed that there are delayed payments and the main reason is the inadequacy of funds reaching the projects, especially as relating to projects that have large throw-forwards from previous years. For 2006-07 however, no new schemes have been added to the annual PSDP and all the old schemes have been rolled over to allow for their ease of timely completion against the fiscal envelop supported by cash resources. Avoiding the inclusion of new schemes in the PSDP while there are many ongoing schemes with large throw-forwards is also a pre-condition for disbursement of loan installments against ADB's BRMP. Based on the evidence as above cited and, according to the rating methodology as per table below, the performance against the indicator is rated as 'D'.

Score	Minimum Requirements
A	(i) The stock of arrears is low (i.e. is below 2% of total expenditure). (ii) Reliable and complete data on the stock of arrears are generated through routine procedures at least at the end of each fiscal year (and includes an age profile).
B	(i) The stock of arrears constitutes 2-10% of total expenditure; and there is evidence that it has been reduced significantly (i.e. more than 25%) in the last two years. (ii) Data on the stock of arrears are generated annually, but may not be complete for a few identified expenditure categories or specified budget institutions.

C	(i) The stock of arrears constitutes 2-10% of total expenditure; and there is no evidence that it has been reduced significantly in the last two years. (ii) Data on the stock of arrears have been generated by at least one comprehensive ad hoc exercise within the last two years.
D	(i) The stock of arrears exceeds 10% of total expenditure. (ii) There is no reliable data on the stock of arrears from the last two years.

B Transparency and Comprehensiveness

PI-5 Classification of the budget

Overall rating 'A'

3.17 A robust classification system allows the tracking of spending on the following dimensions: administrative unit, economic, functional and program. Where standard international classification practices are applied, governments can report expenditure in GFS format and track poverty-reducing and other selected groups of expenditure.

Score	Minimum Requirements (Scoring Method M1)
A	(i) The budget formulation and execution is based on administrative, economic and sub-functional classification, using GFS/COFOG standards or a standard that can produce consistent documentation according to those standards. (Program classification may substitute for sub-functional classification, if it is applied with a level of detail at least corresponding to sub-functional.)
B	(i) The budget formulation and execution is based on administrative, economic and functional classification (using at least the 10 main COFOG functions), using GFS/COFOG standards or a standard that can produce consistent documentation according to those standards.
C	(i) The budget formulation and execution is based on administrative and economic classification using GFS standards or a standard that can produce consistent documentation according to those standards.
D	(i) The budget formulation and execution is based on a different classification (e.g. not GFS compatible or with administrative break-down only).

3.18 One of the major areas of governance reform introduced country-wide and implemented by the provincial Government of Balochistan is a new Chart of Accounts that replaced the old Chart of Classification in the budgeting, accounting and reporting processes of government. Being IMF GFS compliant at the function and sub-function levels, the new Chart is IMF GFS compliant as the object classification elements have been mapped to their respective economic classifications. The Government of Balochistan, having adopted and implemented the new Chart under the New Accounting Model at both the provincial and district governments, prepared its budgets under the new basis.

3.19 The indicator therefore rates 'A' as the budget formulation and execution is based on functional, economic and administrative classifications as required under the framework.

PI-6 Comprehensiveness of information included in the budget document

Overall rating 'B'

3.20 This indicator is a key parameter to determine the comprehensiveness of the budget documents that are presented and approved through the legislative assembly. Annual budget documentation (the annual budget and budget supporting documents), as submitted to the legislature for scrutiny and approval, should allow a complete picture of provincial government fiscal forecasts, budget proposals and out-turn of previous years. In addition to the detailed information on revenues and expenditures, and in order to be considered complete, the annual budget documentation should include information on the following elements:

i. Macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate.
ii. Fiscal deficit, defined according to GFS or other internationally recognized standard.
iii. Deficit financing, describing anticipated composition.
iv. Debt stock, including details at least for the beginning of the current year.
v. Financial Assets, including details at least for the beginning of the current year.
vi. Prior year's budget outturn, presented in the same format as the budget proposal.
vii. Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal.
viii. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year.
ix. Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs.

Score	**Minimum Requirements (Scoring Method M1)**
A	(i) recent budget documentation fulfils 7-9 of the 9 information benchmarks
B	(i) recent budget documentation fulfils 5-6 of the 9 information benchmarks
C	(i) recent budget documentation fulfils 3-4 of the 9 information benchmarks
D	(i) recent budget documentation fulfils 2 or less of the 9 information benchmarks

3.21 The Government of Balochistan each year prepares a Budget Book and other supporting documents. The set contains:

- A white paper that provides the current socio economic picture, various macro economic assumptions mostly containing aggregate growth and inflation. It also gives a summary of various aspects of the budget document including salary, non-salary and development, non-development budget, the actual estimates for the previous year and the deviation made through presenting the revised estimates which are based on the actual of three quarters and estimate for the last quarter. Debt stock figures are also provided.
- New and current expenditures.
- Demands for grants and appropriations.

3.22 The budget book and other documents contain sufficient information 6 out of the 9 elements except those relating (ii), (iii) and (v) listed above. Therefore rating 'B' has been assigned to the indicator in accordance with the indicator rating methodology.

PI-7 Extent of unreported government operations

Overall rating 'D'

3.23 Annual budget estimates, in-year execution reports, year-end financial statements and other fiscal reports for the public, should cover all budgetary and extra-budgetary activities of provincial government to allow a complete picture of provincial government revenue, expenditures across all categories, and financing. This will be the case if (i) extra-budgetary operations (provincial government activities which are not included in the annual budget law, such as those funded through extra-budgetary funds), are insignificant or if any significant expenditures on extra-budgetary activities are included in fiscal reports, and if (ii) activities included in the budget but managed outside the government's budget management and accounting system (mainly donor funded projects) are insignificant or included in government fiscal reporting.

Score	Minimum requirements
A	(i) The level of unreported extra-budgetary expenditure (other than donor funded projects) is insignificant (below 1% of total expenditure). (ii) Complete income/expenditure information for 90% (value) of donor-funded projects is included in fiscal reports, except inputs provided in-kind OR donor funded project expenditure is insignificant (below 1% of total expenditure).
B	(i) The level of unreported extra-budgetary expenditure (other than donor funded projects) constitutes 1-5% of total expenditure. (ii) Complete income/expenditure information is included in fiscal reports for all loan financed projects and at least 50% (by value) of grant financed projects.
C	(i) The level of unreported extra-budgetary expenditure (other than donor funded projects) constitutes 5-10% of total expenditure. (ii) Complete income/expenditure information for all loan financed projects is included in fiscal reports.
D	(i) The level of unreported extra-budgetary expenditure (other than donor funded projects) constitutes more than 10% of total expenditure. (ii) Information on donor financed projects included in fiscal reports is seriously deficient and does not even cover all loan financed operations.

3.24 The two dimensions assessed and their respective sub-ratings are as follows:

Sub-rating element (i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports – 'D'.

Sub-rating element (ii) Income/expenditure information on donor-funded projects which is included in fiscal reports – 'D'.

3.25 With the new District Government system in place, it is experienced that some of the operations of the government go unreported and stay out of the accounting system. One of the reasons observed in Balochistan relates to the monies that are kept outside the Provincial Consolidated Fund. A similar issue also relates to the province-established assignment accounts and PLAs. Their reconciliation is a difficult task as the classified accounts are neither received from project authorities, nor are they recorded in the provincial government accounts. A glaring example is the Prime Minister's allocation of PKR 100 million to each district. The Finance Department and the office of the Accountant General are actively in pursuing the various line departments, semi- and autonomous authorities, to maintain strict financial and fiscal discipline but results are not very encouraging. On the basis of the above evidence, the rating assigned to dimension (i) is 'D'.

3.26 Although donor-funded projects of investment or 'ring-fenced' nature are few in Balochistan, because these are managed using parallel systems to those of the government, and because the reports on these projects are not reported as part of the overall fiscal reports of the provincial government, the rating assigned to dimension (ii) is a 'D'. It is difficult to assess the magnitude of these unreported extra budgetary expenditures, but the fiscal reports do not cover the expenditure information on all loan-financed projects as well as Personal Ledger Accounts. All loan-financed operations are however included in the budget documentation.

3.27 Overall therefore, a rating of 'D' is assigned to the indicator.

PI-8 Transparency of inter-governmental fiscal relations

Overall rating 'B+'

- Sub-rating element (i) - Transparent and rules based systems in the horizontal allocation among lower level governments of unconditional and conditional transfers (both budgeted and actual allocations) – 'A'
- Sub-rating element (ii) – Timeliness of reliable information to lower level governments on their allocations for the coming year – 'A'
- Sub-rating element (iii) - Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sector categories – 'B'

Dimension	Minimum requirements for dimension score. Scoring Methodology M2
(i) Transparency and objectivity in the horizontal allocation among SP governments	Score = A: The horizontal allocation of almost all transfers (at least 90% by value) from provincial government is determined by transparent and rules based systems Score = B: The horizontal allocation of most transfers from provincial government (at least 50% of transfers) is determined by transparent and rules based systems. Score = C: The horizontal allocation of only a small part of transfers from provincial government (10-50%) is determined by transparent and rules based systems. Score = D: No or hardly any part of the horizontal allocation of transfers from provincial government is determined by transparent and rules based systems.
(ii) Timeliness of reliable information to SP governments on their allocations	Score = A: SP governments are provided reliable information on the allocations to be transferred to them before the start of their detailed budgeting processes. Score = B: SP governments are provided reliable information on the allocations to be transferred to them ahead of completing their budget proposals, so that significant changes to the proposals are still possible. Score = C: Reliable information to SP governments is issued before the start of the SP fiscal year, but too late for significant budget changes to be made. Score = D: Reliable estimates on transfers are issued after SP government budgets have been finalized, or earlier issued estimates are not reliable.
(iii) Extent of consolidation of fiscal data for general government according to sectoral categories	Score = A: Fiscal information (ex-ante and ex-post) that is consistent with provincial government fiscal reporting is collected for 90% (by value) of SP government expenditure and consolidated into annual reports within 10 months of the end of the fiscal year. Score = B: Fiscal information (ex-ante and ex-post) that is consistent with provincial government fiscal reporting is collected for at least 75% (by value) of SP government expenditure and consolidated into annual reports within 18 months of the end of the fiscal year. Score = C: Fiscal information (at least ex-post) that is consistent with provincial government fiscal reporting is collected for at least 60% (by value) of SP government expenditure and consolidated into annual reports within 24 months of the end of the fiscal year. Score = D: Fiscal information that is consistent with provincial government fiscal reporting is collected and consolidated for less than 60% (by value) of SP government expenditure OR if a higher proportion is covered, consolidation into annual reports takes place with more than 24 months delay, if at all.

3.28 While the performance indicator set is focused on PFM by provincial government, lower level Governments have wide-ranging expenditure responsibilities. Transfers are usually unconditional grants, the use of which will be determined by lower level governments through their budget processes. In addition, provincial government may provide conditional (earmarked) grants to lower level governments to implement selected service delivery and expenditure responsibilities - e.g. by function or program, on a case by case basis.

3.29 Power was devolved in the entire country at the grass root level. The Balochistan Local Government Ordinance 2001 was promulgated and district, tehsil and union council level governments were formed. At present, Balochistan is divided into 29 districts which have their own district governments. Till now the budget planning and preparation of the annual Public Sector Development Program is done at the Provincial level. The provincial budget is first prepared and placed before the legislative assembly. The PFC Award is announced as per a given formula of 75:25 (area: population). In some cases the intimation to the district governments of the budgetary provision has been delayed for almost 9 months, after which the district governments prepare their own budgets. The budgets are placed before the respective district councils and debated, following which, approval by the council is granted. Certain releases from the provincial to the district governments are sometimes done as late as in the last quarter of the fiscal year.

3.30 The issue of consolidation of accounts and other fiscal data at the provincial level is a serious concern in Balochistan as the district governments lack knowledge, skills and experiences to do so. There are no DAOs established so far by upgrading of TOs. Once the function is established and appropriate skills upgrading carried out, DAOs would be able to properly document all fiscal and financial data, prepare monthly accounts of their districts and allow the Accountant General to concentrate on the timely and quality consolidation of the entire province's accounts.

3.31 The rating for this parameter is premised on the 'M2' Scoring which is based on averaging the scores for the individual dimensions / sub indicators. In terms of transparency and objectivity in the horizontal allocations among the sub-national lower level governments (sub-rating element (i)), the rating is assessed 'A' as the allocations are made as per provisions of the Local Government Ordinance 2001. The information required by the district governments for preparation of their budget usually gets delayed, but with the latest PFC Award having been announced for a period of three years ahead, the impact of this delay can now be mitigated. Accordingly, the sub-rating element (ii) is rated 'A'. The scoring 'C' is assessed for the last sub-rating element (iii) as a result of the weak capacity of the TOs to manage the accounting and reporting function at the district levels. The average overall rating as per PEFA conversion table for M2 scoring is 'B' for this indicator.

PI-9 Oversight of aggregate fiscal risk from other public sector entities

Overall rating 'D'

3.32 Provincial government will usually have a formal oversight role in relation to other public sector entities and should monitor and manage fiscal risks with provincial implications arising from activities of lower levels of government, autonomous government agencies (AGAs) / public enterprises (PEs). Fiscal risks can be created and inter alia take the form of debt service defaulting, operational losses, expenditure payment arrears and unfunded pension obligations. Government should require and receive quarterly financial statements and audited year-end statements from AGAs / PEs, and monitor performance against financial targets. AGAs / PEs often report to parent line ministries, but consolidation of information is important for overview and reporting of the total fiscal risk for provincial government. Where lower level governments can generate fiscal liabilities for higher level government, their fiscal position should be monitored, at least on an annual basis, again with consolidation of essential fiscal information. Provincial monitoring of these fiscal risks should enable corrective measures.

3.33 The two dimensions assessed have the following sub-ratings:

- Sub-rating element (i) - Extent of monitoring of AGAs and PEs – ‘D’.
- Sub-rating element (ii) - Extent of monitoring of lower level governments’ fiscal position – ‘D’.

Score	Minimum requirements
A	(i) All major AGAs/PEs submit fiscal reports to provincial governments at least six-monthly, as well as annual audited accounts, and provincial government consolidates fiscal risk issues into a report at least annually. (ii) SP government cannot generate fiscal liabilities for provincial government OR the net fiscal position is monitored at least annually for all levels of SP government and provincial government consolidates overall fiscal risk into annual (or more frequent) reports.
B	(i) All major AGAs/PEs submit fiscal reports including audited accounts to provincial governments at least annually, and provincial government consolidates overall fiscal risk issues into a report. (ii) The net fiscal position is monitored at least annually for the most important level of SP government, and provincial government consolidates overall fiscal risk into a report.
C	(i) Most major AGAs/PEs submit fiscal reports to provincial governments at least annually, but a consolidated overview is missing or significantly incomplete. (ii) The net fiscal position is monitored at least annually for the most important level of SP government, but a consolidated overview is missing or significantly incomplete.
D	(i) No annual monitoring of AGAs and PEs takes place, or it is significantly incomplete. (ii) No annual monitoring of SP governments’ fiscal position takes place or it is significantly incomplete.

3.34 For sub-rating element (dimension), since there is no monitoring of autonomous government agencies/public enterprises by a central agency in core government (e.g. by FD), a rating of ‘D’ is applicable. Also as no formal monitoring or proper consolidation of fiscal position is carried out by the provincial government, the rating of ‘D’ applies to sub-rating element (ii). Accordingly, therefore, an overall rating of ‘D’ is assessed for the indicator.

3.35 The PFM system has a number of impediments arising, inter alia, from low human resource capacities (lack of qualified and skilled officers), unwillingness of experienced and qualified personnel from other provinces to relocate to Balochistan, and lack of appropriate IT-based PFM systems. While provincial and district audit infrastructures are in place in Balochistan – headed by their respective Directors General, a lot remains to be achieved in ensuring that the accounts are prepared by the accounting group and presented for audit on time and consolidation of those accounts is done using good practice principles.

PI-10 Public access to key fiscal information

Overall rating ‘C’

3.36 Transparency will depend on whether information on fiscal plans, positions and performance of the government is easily accessible to the general public or at least the relevant interest group. The indicator lists out the following criteria for rating.

i) Annual budget documentation: A complete set of documents can be obtained by the public through appropriate means when it is submitted to the legislature.

ii) In-year budget execution reports: The reports are routinely made available to the public through appropriate means within one month of their completion.

iii) Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit.

iv) External audit reports: All reports on provincial government consolidated operations are made available to the public through appropriate means within six months of completed audit.

v) Contract awards: Award of all contracts with value above approx. USD 100,000 equiv. are published at least quarterly through appropriate means.

vi) Resources available to primary service units: Information is publicized through appropriate means at least annually, or available upon request, for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics).

Score	Minimum Requirements (Scoring Method M1)
A	(i) the government makes available to the public 5-6 of the 6 listed types of information
B	(i) the government makes available to the public 3-4 of the 6 listed types of information
C	(i) the government makes available to the public 1-2 of the 6 listed types of information
D	(i) the government makes available to the public none of the 6 listed types of information

3.37 The Government of Balochistan disseminates the annual budget documents, accordingly, to the press, through the government's Public Relations Department, as soon as the approved budget document is printed. The budget is also posted on the provincial government's website, and at least 300 hard copies are distributed across the province. In-year budget execution statements are not routinely available to the public especially that the timeliness in their availability and their quality content remain a matter of concern. Year-end provisional financial statements are also posted on the website, along with the approved budget, but these are not quite detailed or adequately reliable as they would have been unaudited at the time. External audit reports, being the responsibility of the Auditor General, are available to the public well after the 6 month post audit period, and only after they have been laid at the provincial assembly. Contract awards are not published in any systematic manner, and resources available to primary service units (DDO-wise/Grant-wise) are available as part of the budget document released by the Finance Department.

3.38 Since two out of the six listed minimum requirements are made available to the public, the overall rating of the indicator as per the scoring methodology above is ''C'.

C Budget Cycle

C(i) Policy-Based Budgeting

PI-11 Orderliness and participation in the annual budget process.

Overall rating ‘B+’

- Sub-rating element (i) Transparent and rules based systems in the horizontal allocation among lower level governments of unconditional and conditional transfers (both budgeted and actual allocations) – B.
- Sub-rating element (ii) Timeliness of reliable information to lower level governments on their allocations for the coming year – B.
- Sub-rating element (iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sector categories – A.

3.39 While the FD is usually the driver of the annual budget formulation process, effective participation in the budget formulation process by other departments and agencies (MDAs) as well as the political leadership, impacts the extent to which the budget will reflect macro-economic, fiscal and sector policies. Full participation requires an integrated top-down and bottom-up budgeting process, involving all parties in an orderly and timely manner, in accordance with a pre-determined budget formulation calendar.

3.40 The calendar should allow for passing of the budget law before the start of the fiscal year as well as for sufficient time for the other MDAs to meaningfully prepare their detailed budget proposals as per the guidance. Delays in passing the budget may create uncertainty about the level of approved expenditures and delays in some government activities, including major contracts. Clear guidance on the budget process should be provided in the budget circular and budget formulation manual, including indicative budgetary ceilings for administrative units or functional areas.

3.41 In order to avoid last minute changes to budget proposals, it is important that the political leadership is actively involved in the setting of aggregate allocations (particularly for sectors or functions) from an early stage of the budget preparation process. This should be initiated through review and approval of the allocation ceilings in the budget circular, either by approving the budget circular or by approving a preceding proposal for aggregate allocations (e.g. in a budget outlook paper).

3.42 The Government of Balochistan prepares the budget by adhering to the budget calendar. A Budget Call Circular (BCC) is issued by the Finance Department about 7 months before the start of the budget year. Subsequently the budget is prepared by the provincial departments, scrutinized by the Provincial Finance Department, and the entire draft budget is evolved as an outcome of this process. Unlike other provinces, only some of the legislative assembly members from the treasury are kept actively involved and since the government enjoys a majority in the province, the budget, upon presentation in the assembly, is passed within 10-14 days, as reported by the Finance Department.

3.43 In case of the district governments, the budget circular is issued by the Provincial Government to the district for which the timelines are not strictly followed. One of the issues faced by the province is the role of the newly established district governments. Devolution, as far as Balochistan is concerned, is still in its infancy stage. The BCC is also in turn issued by the respective District Coordination Officers (through EDOs F&P) to the line departments in the district government once they receive it from the provincial government. The prepared budgets are compiled and presented to the respective local legislative assemblies / district councils and approved following due deliberations. In the absence of a legislative arrangement in place due to elections, the budgets remain formally unapproved until the assemblies/councils are in place. The issue of district governments' capacity to deal with the budgetary planning and formulation remain a challenge in the province.

3.44 The three dimensions assessed and their sub-ratings are as follows:

- Sub-rating element (i) - Existence of and adherence to a fixed budget calendar – 'B'.
- Sub-rating element (ii) - Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent) – 'B'.
- Sub-rating element (iii) - Timely budget approval by the legislature or similarly mandated body (within the last three years) – 'A'.

Dimension	Minimum requirements for dimension score. Scoring Methodology M2
(i) Existence of and adherence to a fixed budget calendar	Score = A: A clear annual budget calendar exists, is generally adhered to and allows MDAs enough time (and at least six weeks from receipt of the budget circular) to meaningfully complete their detailed estimates on time. Score = B: A clear annual budget calendar exists, but some delays are often experienced in its implementation. The calendar allows MDAs reasonable time (at least four weeks from receipt of the budget circular) so that most of them are able to meaningfully complete their detailed estimates on time, Score = C: An annual budget calendar exists, but is rudimentary and substantial delays may often be experienced in its implementation, and allows MDAs so little time to complete detailed estimates, that many fail to complete them timely. Score = D: A budget calendar is not prepared OR it is generally not adhered to OR the time allowed for MDAs' budget preparation is clearly insufficient to make meaningful submissions.
(ii) Guidance on the preparation of budget submissions	Score = A: A comprehensive and clear budget circular is issued to MDAs, which reflects ceilings approved by Cabinet (or equivalent) prior to the circular's distribution to MDAs. Score = B: A comprehensive and clear budget circular is issued to MDAs, which reflects ceilings approved by Cabinet (or equivalent). This approval takes place after the circular distribution to MDAs, but before MDAs have completed their submission. Score = C: A budget circular is issued to MDAs, including ceilings for individual administrative units or functional areas. The budget estimates are reviewed and approved by Cabinet only after they have been completed in all details by MDAs, thus seriously constraining Cabinet's ability to make adjustments. Score = D: A budget circular is not issued to MDAs OR the quality of the circular is very poor OR Cabinet is involved in approving the allocations only immediately before submission of detailed estimates to the legislature, thus having no opportunities for adjustment.
(iii) Timely budget approval by the legislature	Score = A: The legislature has, during the last three years, approved the budget before the start of the fiscal year. Score = B: The legislature approves the budget before the start of the fiscal year, but a delay of up to two months has happened in one of the last three years. Score = C: The legislature has, in two of the last three years, approved the budget within two months of the start of the fiscal year. Score = D: The budget has been approved with more than two months delay in two of the last three years.

3.45 A clear budget calendar exists. The calendar, as also included in the BCC, is generally adhered to and reasonable time of at least 4 weeks is given to the departments and other government agencies to prepare their own budgets. Legislative approval is in June, before the start of the fiscal year. As per the PEFA PFM, rating ‘B’ is therefore assigned to sub-rating element (i).

3.46 A budget circular (BCC) containing the preparation guidelines is circulated to the line departments and agencies of the provincial governments. The budget estimated is reviewed by the cabinet and approval is accorded after due deliberations and scrutiny. Necessary amendments are incorporated. A rating of ‘B’ is therefore assigned to sub-rating element (ii).

3.47 The legislative assembly approves the budget in a shorter time. For the last three years, the approval was accorded almost after two weeks of placing the Budget Bill before the legislative assembly and before the start of the fiscal year. Delays can only however occur with the suspension of the Assembly due to elections. Except for local governments that had, during one budget year, to be suspended due to elections, all budgets have been approved before the start of the new fiscal year. Therefore, a rating of ‘A’ is assigned to the sub-rating element (iii).

3.48 The PFM Assessment for this indicator is based on M2 scoring. Accordingly, B+ rating is assigned for orderliness and participation in the annual budget process.

PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting.

Overall rating ‘D’

- Sub-rating element (i) - Preparation of multi -year fiscal forecasts and functional allocations – D.
- Sub-rating element (ii) - Scope and frequency of debt sustainability analysis – D.
- Sub-rating element (iii) - Existence of sector strategies with multi-year costing of recurrent and investment expenditure – D.
- Sub-rating element (iv) - Linkages between investment budgets and forward expenditure estimates – D.

3.49 Expenditure policy decisions have multi-year implications, and must be aligned with the availability of resources in the medium-term perspective. Therefore, multi-year fiscal forecasts of revenue, medium term expenditure aggregates for mandatory expenditure and potential deficit financing (including reviews of debt sustainability involving both external and domestic debt) must be the foundation for policy changes.

3.50 Expenditure policy decisions or options should be described in sector strategy documents, which are fully costed in terms of estimates of forward expenditures (including expenditures both of a recurring nature as well as those involving investment commitments and their recurrent cost implications) to determine whether current and new policies are affordable within aggregate fiscal targets. On this basis, policy choices should be made and indicative, medium-term sector allocations be established. The extent to which forward estimates include explicit costing of the implication of new policy initiatives, involve clear, strategy-linked selection criteria for investments and are integrated into the annual budget formulation process will then complete the policy-budget link.

Dimension	Minimum requirements for dimension score. Scoring Methodology M2
(i) Multi-year fiscal forecasts and functional allocations	Score = A: Forecasts of fiscal aggregates (on the basis of main categories of economic and functional/sector classification) are prepared for at least three years on a rolling annual basis. Links between multi-year estimates and subsequent setting of annual budget ceilings are clear and differences explained Score = B: Forecasts of fiscal aggregates (on the basis of main categories of economic and functional/sector classification) are prepared for at least two years on a rolling annual basis. Links between multi-year estimates and subsequent setting of annual budget ceilings are clear and differences are explained. Score = C: Forecasts of fiscal aggregates (on the basis of the main categories of economic classification) are prepared for at least two years on a rolling annual basis. Score = D: No forward estimates of fiscal aggregates are undertaken
(ii) Scope and frequency of debt sustainability analysis	Score = A: DSA for external and domestic debt is undertaken annually. Score = B: DSA for external and domestic debt is undertaken at least once during the last three years. Score = C: A DSA for at least for external debt undertaken once during last three years. Score = D: No DSA has been undertaken in the last three years
(iii) Existence of costed sector strategies	Score = A: Strategies for sectors representing at least 75% of primary expenditure exist with full costing of recurrent and investment expenditure, broadly consistent with fiscal forecasts. Score = B: Statements of sector strategies exist and are fully costed, broadly consistent with fiscal forecasts, for sectors representing 25-75% of primary expenditure. Score = C: Statements of sector strategies exist for several major sectors but are only substantially costed for sectors representing up to 25% of primary expenditure OR costed strategies cover more sectors but are inconsistent with aggregate fiscal forecasts. Score = D: Sector strategies may have been prepared for some sectors, but none of them have substantially complete costing of investments and recurrent expenditure.
(iv) Linkages between investment budgets and forward expenditure estimates	Score = A: Investments are consistently selected on the basis of relevant sector strategies and recurrent cost implications in accordance with sector allocations and included in forward budget estimates for the sector. Score = B: The majority of important investments are selected on the basis of relevant sector strategies and recurrent cost implications in accordance with sector allocations and included in forward budget estimates for the sector. Score = C: Many investment decisions have weak links to sector strategies and their recurrent cost implications are included in forward budget estimates only in a few (but major) cases. Score = D: Budgeting for investment and recurrent expenditure are separate processes with no recurrent cost estimates being shared.

3.51 So far, medium term expenditure planning has not been fully implemented in Balochistan. The government however recognizes the need to improve management of capital and revenue expenditure through a process of, comprehensive planning in the context of a Medium Term Budgetary Framework. The B-PRSP contained an outline MTBF wherein revenues were projected under two scenarios - for the period FY03-FY05: Rs.82.8 billion (worst-case) and Rs.102 billion (best case) with budget deficit of Rs.20 billion and surplus of Rs.11.2 billion, respectively - but this was not updated, deepened or extended during later years. Debt sustainability analysis is not systematically carried out although some analysis is done on adhoc basis. The annual process of budget making at the provincial level starts with the issue of Budget Call Circular by the Finance Department. By this circular the provincial departments are requested to prepare and submit a statement of permanent expenditures and proposals for new expenditures for the next budget year. The budget for development expenditure of each department is prepared by the provincial P&D department in consultation with the departments but no direct links with sector strategies are made. Dimensions (i), (ii), (iii) and (iv) are all therefore rated 'D', thus giving rise to an overall rating of 'D' for the indicator.

PI-13 Transparency of taxpayer obligations and liabilities.

Overall; rating 'C+'

- Sub-rating element (i) - Clarity and comprehensiveness of tax liabilities – C.
- Sub-rating element (ii) - Taxpayer access to information on tax liabilities and administrative procedures – C.
- Sub-rating element (iii) - Existence and functioning of a tax appeals mechanism – B.

3.52 Effective assessment of tax liability is subject to the overall control environment that exists in the revenue administration system but is also very dependent on the direct involvement and co-operation of the taxpayers from the individual and corporate private sector. Their contribution to ensuring overall compliance with tax policy is encouraged and facilitated by a high degree transparency of tax liabilities, including clarity of legislation and administrative procedures, access to information in this regard, and the ability to contest administrative rulings on tax liability.

Dimension	**Minimum requirements for dimension score.**
(i) Clarity and comprehensiveness of tax liabilities	Score = A: Legislation and procedures for all major taxes are comprehensive and clear, with strictly limited discretionary powers of the government entities involved. Score = B: Legislation and procedures for most, but not necessarily all, major taxes are comprehensive and clear, with fairly limited discretionary powers of the government entities involved. Score = C: Legislation and procedures for some major taxes are comprehensive and clear, but the fairness of the system is questioned due to substantial discretionary powers of the government entities involved. Score = D: Legislation and procedures are not comprehensive and clear for large areas of taxation and/or involve important elements of administrative discretion in assessing tax liabilities.
(ii) Taxpayers' access to information on tax liabilities and administrative procedures	Score A: Taxpayers have easy access to comprehensive, user friendly and up-to-date information tax liabilities and administrative procedures for all major taxes, and the RA supplements this with active taxpayer education campaigns. Score = B: Taxpayers have easy access to comprehensive, user friendly and up-to-date information tax liabilities and administrative procedures for some of the major taxes, while for other taxes the information is limited. Score = C: Taxpayers have access to some information on tax liabilities and administrative procedures, but the usefulness of the information is limited due coverage of selected taxes only, lack of comprehensiveness and/or not being up-to-date. Score = D: Taxpayer access to up-to-date legislation and procedural guidelines is seriously deficient.
(iii) Existence and functioning of a tax appeals mechanism	Score A: A tax appeals system of transparent administrative procedures with appropriate checks and balances, and implemented through independent institutional structures, is completely set up and effectively operating with satisfactory access and fairness, and its decisions are promptly acted upon.

	Score = B: A tax appeals system of transparent administrative procedures is completely set up and functional, but it is either too early to assess its effectiveness or some issues relating to access, efficiency, fairness or effective follow up on its decisions need to be addressed. Score = C: A tax appeals system of administrative procedures has been established, but needs substantial redesign to be fair, transparent and effective. Score = D: No functioning tax appeals system has been established

3.53 A good tax collection system encourages compliance and limits individual negotiation of tax liability by ensuring that tax legislation is clear and comprehensive and that it limits discretionary powers of the government entities involved, such as the Revenue Administration (RA) / BoR, the FD and investment promotion agencies.

3.54 Taxpayer education is an important part of facilitating taxpayer compliance with registration, declaration and payment procedures. Actual and potential taxpayers need easy access to user friendly, comprehensive and up-to-date information on the laws, regulations and procedures (e.g. posted on government websites, made available through taxpayer seminars, widely distributed guidelines/pamphlets and other taxpayer education measures). Potential taxpayers also need to be made aware of their liabilities through taxpayer education campaigns.

3.55 The number of taxes and tax rates varies over time. The information is passed on to the taxpayers as part of the budget speech, both at the federal and provincial levels. Tax liabilities are well defined but there are immense discretionary powers with the tax assessment officials which constitute grave risks for the system. The Government of Pakistan has evolved a new system of automated tax assessment which is now parallel to the manual system of tax assessments. This would considerably reduce the discretionary powers vested with the tax officials. Legislation and procedures for major taxes are comprehensive and clear, but the fairness of the system is questioned due to substantial discretionary powers of the government entities involved. The province-own domestic revenue collection has gone up by more than 50% in 2005-06 as compared to the previous years which witnessed shortfalls against the budgets. The main provincial sources of revenue are provincial excise, motor vehicle tax, capital gain tax, property transfers, property tax, entertainment duty, professional tax, hotel tax, trade tax and stamp duties. The current level of discretionary powers vested with the Tax authorities is unusually high. In the case of land transfer taxes, since the valuation tables are not updated regularly, the incidence of tax evasion remains also high. On the basis of the above, a rating of ‘C’ is accordingly assigned for sub-rating element (i).

3.56 In respect of sub-rating element (ii), a score of ‘C’ applies because, although taxpayers can have easy access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for the major taxes, taxpayer education programs are lacking. Tax computation, particularly for Balochistan taxpayers, is an onerous task particularly in the light of limited or non-existent taxpayer education programs in the province.

3.57 A system of transparent administrative procedures for tax appeals is fully established and functional. However, due to some issues relating to access, efficiency, fairness and effective follow-up on decisions emanating from the appeals process, sub-rating element (iii) is assessed as ‘C.’

3.58 As the scoring is based on M2 methodology, the overall average rating for this indicator is ‘C+’.

PI-14 Effectiveness of measures for taxpayer registration and tax assessment.
Overall rating ‘D+’

- Sub-rating element (i) - Controls in the taxpayer registration system – C.

- Sub-rating element (ii) - Effectiveness of penalties for non-compliance with registration and declaration obligations – C.
- Sub-rating element (iii) - Planning and monitoring of tax audit and fraud investigation programs – D.

3.59 Taxpayer registration is facilitated by control mechanisms introduced by the Revenue Authority. Maintenance of a taxpayer database based on a unique taxpayer identification number is an important element of such a control system, but is most effective if linked to other government registration systems that involve elements of taxable turnover and assets (such as e.g. issue of business licenses, opening of bank accounts and pension fund accounts). In addition, RAs should ensure compliance with registration requirements through occasional surveys of potential taxpayers e.g. by selective, physical inspection of business premises and residences.

3.60 Automated taxpayers databases are maintained for all the major direct and indirect taxes. However, there is practically no linkage with other databases for providing revenue controls. The Government, in 2002, successfully carried out a pilot of integrating other databases with the tax base and came out with strong information and evidence of control weaknesses and incidences of tax evasion. As the controls are still not in-built and full integration is still absent, a rating of 'C' is assigned to sub-rating element (i).

3.61 Ensuring that taxpayers comply with their procedural obligations of taxpayer registration and tax declaration is usually encouraged by penalties that may vary with the seriousness of the fault. Effectiveness of such penalties is determined by the extent to which penalties are sufficiently high to have the desired impact, and are consistently and fairly administered.

3.62 The system of imposing penalties is well defined in Balochistan but delegates a lot of discretion to the tax official. The government at this moment in time is more geared up to bringing every potential taxpayer (as per defined limits of taxation) into the tax net rather than penalize them for not getting registered. The practice of focusing on increasing the tax net rather than ensuring compliance through penalties enhances the risk of tax evasion, particularly where with the absence of a more positive tax paying culture, taxpayers' limited knowledge of their responsibilities, and the lower level of implementation of the penalties. Penalties for non-compliance exist for most relevant areas, but are not always effectively implemented due to sufficiently scale and/or inconsistent administration. Against the sub-rating element (ii), the performance is assessed as 'C'.

3.63 Modern RAs rely increasingly on self-assessment and use risk targeted auditing of taxpayers as a key activity to improve compliance and deter tax evasion. Inevitable resource constraints mean that audit selection processes must be refined to identify taxpayers and taxable activities that involve the largest potential risk of non-compliance. Indicators of risk are the frequency of amendments to returns and additional tax assessed from tax audit work. Collection and analysis of information on non-compliance and other risks is necessary for focusing tax audit activities and resources towards specific sectors, and types of taxpayers have the highest risk of revenue leakage. More serious issues of non-compliance involve deliberate attempts of tax evasion and fraud, which may involve collusion with representatives of the RA. The ability of the RA to identify, investigate and successfully prosecute major evasion and fraud cases on a regular basis is essential for ensuring that taxpayers comply with their obligations.

Dimension	Minimum requirements for dimension score. Scoring Methodology M2
(i) Controls in the taxpayer registration system.	Score = A: Taxpayers are registered in a complete database system with comprehensive direct linkages to other relevant government registration systems and financial sector regulations. Score = B: Taxpayers are registered in a complete database system with some

	linkages to other relevant government registration systems and financial sector regulations. Score = C: Taxpayers are registered in database systems for individual taxes, which may not be fully and consistently linked. Linkages to other registration/licensing functions may be weak but are then supplemented by occasional surveys of potential taxpayers. Score = D: Taxpayer registration is not subject to any effective controls or enforcement systems
(ii) Effectiveness of penalties for non-compliance with registration and tax declaration	Score = A: Penalties for all areas of non-compliance are set sufficiently high to act as deterrence and are consistently administered. Score = B: Penalties for non-compliance exist for most relevant areas, but are not always effective due to insufficient scale and/or inconsistent administration. Score = C: Penalties for non-compliance generally exist, but substantial changes to their structure, levels or administration are needed to give them a real impact on compliance. Score = D: Penalties for non-compliance are generally non-existent or ineffective (i.e. set far too low to have an impact or rarely imposed).
(iii) Planning and monitoring of tax audit programs.	Score A: Tax audits and fraud investigations are managed and reported on according to a comprehensive and documented audit plan, with clear risk assessment criteria for all major taxes that apply self-assessment. Score = B: Tax audits and fraud investigations are managed and reported on according to a documented audit plan, with clear risk assessment criteria for audits in at least one major tax area that applies self-assessment. Score = C: There is a continuous program of tax audits and fraud investigations, but audit programs are not based on clear risk assessment criteria. Score = D: Tax audits and fraud investigations are undertaken on an ad hoc basis if at all.

3.64 At present, the planning and monitoring of tax audit programs are non-existent and the tax audits and fraud investigations are undertaken on an ad hoc basis, if at all. Both E&T and BoR lack capacity to plan and monitor tax audit programs. Substantial improvement in the audit area is required with heavy emphasis on automation and capacity building of the resources to more effectively and efficiently execute risk based audit and fraud investigation programs. On the basis of this performance, sub-rating element (iii) is assessed 'D'.

3.65 The scoring method applicable for this indicator is M2. Overall average rating against the indicator is therefore assessed as 'D+'.

PI-15 Effectiveness in collection of tax payments
Overall rating 'D+'

3.66 The three sub-rating elements (dimensions) are assessed as follows:

- Sub-Rating Element (i) - Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year which was collected during that fiscal year (average of the last two fiscal years) – 'D'.
- Sub-Rating Element (ii) - Effectiveness of transfer of tax collections to the Treasury by the revenue administration – 'B'.

- Sub-Rating Element (iii) - Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury – ‘D’.

3.67 Accumulation of tax arrears can be a critical factor undermining high budgetary outturns, while the ability to collect tax arrears lends credibility to the tax assessment process and reflects equal treatment of all taxpayers, whether they pay voluntarily or need close follow up.

Score	Minimum requirements (Scoring methodology: M1)
A	(i) The average debt collection ratio in the two most recent fiscal years was 90% or above OR the total amount of tax arrears is insignificant (i.e. less than 2% of total annual collections). (ii) All tax revenue is paid directly into accounts controlled by the Treasury or transfers to the Treasury are made daily. (iii) Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least monthly within one month of end of month.
B	(i) The average debt collection ratio in the two most recent fiscal years was 75-90% and the total amount of tax arrears is significant. (ii) Revenue collections are transferred to the Treasury at least weekly. (iii) Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least quarterly within six weeks of end of quarter.
C	(i) The average debt collection ratio in the two most recent fiscal years was 60-75% and the total amount of tax arrears is significant (ii) Revenue collections are transferred to the Treasury at least monthly. (iii) Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least annually within 3 months of end of the year.
D	(i) The debt collection ratio in the most recent year was below 60% and the total amount of tax arrears is significant (i.e. more than 2% of total annual collections). (ii) Revenue collections are transferred to the Treasury less regularly than monthly (iii) Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury does not take place annually or is done with more than 3 months’ delay.

i) The collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years) - Provincial revenue receipts are badly affected by low recovery. The recovery of government dues needs much improvement as evidenced through concluded audits. There are no arrears data as the reconciliations of accounts in respect of arrears are not carried out. Therefore, sub-rating element (i) is assessed as 'D'.

ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration: - receipts are deposited with the State Bank of Pakistan or the National Bank of Pakistan acting as the fiscal agent. Revenue transfers to Treasury are timely; therefore, sub-rating element (ii) is rated 'B'.

iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury: - it is difficult to perform complete reconciliations of tax assessments, collections and transfers to Treasury in an environment where tax records are largely manual and not integrated, notwithstanding some automated processes. Since reconciliations are effectively not carried out, sub-rating element (iii) is assigned a ‘D’.

3.68 Overall, therefore, a rating is 'D+' is assigned to the indicator.

C(ii) Predictability and Control in Budget Execution

PI-16 Predictability in availability of funds for commitment of expenditures

Overall rating 'B+'

3.69 Effective execution of the budget, in accordance with the work plans, requires that the spending ministries, departments and agencies (MDAs) receive reliable information on availability of funds within which they can commit expenditure for recurrent and capital inputs. This indicator assesses the extent to which the Finance Department (FD) provides reliable information on the availability of funds to MDAs that manage administrative (or program) budget heads (or votes) and therefore are the primary recipients of such information from the FD.

3.70 The three dimensions assessed have the following assigned sub-ratings:

- Sub-rating element (i) - Extent to which cash flows are forecast and monitored – 'B'.
- Sub-rating element (ii) - Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment – 'A'.
- Sub-rating element (iii) - Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs – 'B'.

Score	Minimum requirements (Scoring methodology: M1)
A	(i) A cash flow forecast is prepared for the fiscal year, and are updated monthly on the basis of actual cash inflows and outflows. (ii) MDAs' are able to plan and commit expenditure for at least six months in advance in accordance with the budgeted appropriations. (iii) Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a transparent and predictable way.
B	(i) A cash flow forecast is prepared for the fiscal year and updated at least quarterly, on the basis of actual cash inflows and outflows. (ii) MDAs are provided reliable information on commitment ceilings at least quarterly in advance. (iii) Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a fairly transparent way.
C	(i) A cash flow forecast is prepared for the fiscal year, but is not (or only partially and infrequently) updated. (ii) MDAs are provided reliable information for one or two months in advance. (iii) Significant in-year budget adjustments are frequent, but undertaken with some transparency.
D	(i) Cash flow planning and monitoring are not undertaken or of very poor quality. (ii) MDAs are provided commitment ceilings for less than a month OR no reliable indication at all of actual resource availability for commitment. (iii) Significant in-year budget adjustments are frequent and not done in a transparent manner.

3.71 Once the budget is approved, the salary and non-salary recurrent expenditure budget (25%) releases are made quarterly in advance. The cash flow forecasts are made for every fiscal year for salary and non-salary recurrent expenditures. Considering the budget as annual forecast of cash inflows and outflows, cash availability information is fully known at the beginning of the fiscal year; however, since it is not regularly updated, though mechanistically, during the year more than quarterly in terms of inflows and outflows, sub-rating element (i) is assessed a 'B' rating, at the margin. In terms of the development budget, the releases are made on the basis of approved projects (PC-1&2) and as and when required. The Treasury Section of the FD reconciles with the State Bank of Pakistan where government maintains four accounts, on a generally regular basis. Account # 1 holds the receipts and payments both in respect of provincial consolidated funds and public accounts. Account # 2 is the food account, and account # 3 is for receipts and payments of Zakat funds. Account # 4 is for all receipts and payments pertaining to the district governments. There is generally a delay in consolidating the actual cash flow as assignment and special accounts are not accounted for as routine practice. There is serious delay in consolidating and updating district related cash flows at the provincial FD. The district governments in Balochistan do not carry out cash flow forecasting as they are totally dependant on releases from the provincial government. In addition, there are always material differences between the monetary balances (as per the State Bank) and fiscal balances (as reported by the Accountant General in annual accounts) during any fiscal year.

3.72 The departments and agencies of the provincial government are usually informed a few weeks before the releases are made. The commitment ceilings in terms of salary and non- salary budgets are well defined in the budget and annual PSDP and MDAs can make forward commitments at least for some 6 months ahead. As regards the development budget, MDAs are only able to make expenditure commitments once the intimation of funds releases is made to them. Overall, since the budgets signal the available amounts for expenditures and MDAs can, in general, access the resources for forward commitments, sub-rating (ii) is therefore rated 'A'.

3.73 Usually in case of the salary budget, adjustments are not made during the progress of the financial year. For development expenditure, government makes the adjustment and prepares a revised estimate based on the actual of 9 months and estimates for the remaining 3 months of the fiscal year. The total revised estimates are placed before the legislation along with the budget for the next year, once a year. Therefore, sub-rating (iii) is rated 'B'.

3.74 The overall rating assessed for the indicator is a 'C+', on the basis of the scoring methodology as identified above.

PI-17 Recording and management of cash balances, debt and guarantees.
Overall rating 'B'

- Sub-rating element (i) - Quality of debt data recording and reporting – 'B'.
- Sub-rating element (ii) - Extent of consolidation of the government's cash balances – 'B'.
- Sub-rating element (iii) - Systems for contracting loans and issuance of guarantees – 'B'.

3.75 Debt management, in terms of contracting, servicing and repayment, and the provision of government guarantees are often major elements of overall fiscal management. Poor management of debt and guarantees can create unnecessarily high debt service costs and can create significant fiscal risks. The maintenance of a debt data system and regular reporting on main features of the debt portfolio and its development are critical for ensuring data integrity and related benefits such as accurate debt service budgeting, timely service payments, and well planned debt roll-over.

Dimension	**Minimum requirements for dimension score.** Scoring Methodology M2
(i) Quality of debt data recording and reporting	Score = A: Domestic and foreign debt records are complete, updated and reconciled on a monthly basis with data considered of high integrity. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced at least quarterly Score = B: Domestic and foreign debt records are complete, updated and reconciled quarterly. Data considered of fairly high standard, but minor reconciliation problems occur. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced at least

	annually. Score = C: Domestic and foreign debt records are complete, updated and reconciled at least annually. Data quality is considered fair, but some gaps and reconciliation problems are recognized. Reports on debt stocks and service are produced only occasionally or with limited content. Score = D: Debt data records are incomplete and inaccurate to a significant degree.
(ii) Extent of consolidation of the government's cash balances	Score = A: All cash balances are calculated daily and consolidated. Score = B: Most cash balances calculated and consolidated at least weekly, but some extra-budgetary funds remain outside the arrangement. Score = C: Calculation and consolidation of most government cash balances take place at least monthly, but the system used does not allow consolidation of bank balances Score = D: Calculation of balances takes place irregularly, if at all, and the system used does not allow consolidation of bank balances.
(iii) Systems for contracting loans and issuance of guarantees.	Score = A: Provincial government's contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets, and always approved by a single responsible government entity. Score = B: Provincial government's contracting of loans and issuance of guarantees are made within limits for total debt and total guarantees, and always approved by a single responsible government entity. Score = C: Provincial government's contracting of loans and issuance of guarantees are always approved by a single responsible government entity, but are not decided on the basis of clear guidelines, criteria or overall ceilings. Score = D: Provincial government's contracting of loans and issuance of guarantees are approved by different government entities, without a unified overview mechanism.

3.76 The Government of Balochistan keeps track of its debt portfolio. Debt has been rising for the last 3 years and a significant portion of the development budget is funded from the SBP overdraft facilities since the releases from the federal government sometimes arrive delayed. The debt profile of the Government of Balochistan has, in recent years, been tremendously increased due to increases in borrowings from international donors. The Government issues a White Paper each year that includes a compilation of the overall debt figures. Reports on debt stocks are prepared, however, on regular and ad hoc basis, although there exists minor reconciliation issues which are resolved on timely basis. As a result, the sub-rating (i) of the indicator is assessed a 'B' rating.

3.77 The cash balances of the government are consolidated regularly. For PLAs and assignment, accounts, consolidation remains an issue yet to be conquered as these are maintained largely outside the core government accounting and reporting system. As most cash balances are calculated and consolidated at least weekly, a rating of 'B' is therefore assigned to sub-rating element (ii).

3.78 The loans that the Provincial Government contracts are sought through the federal government but are provincially approved through established mechanisms through a single authorized agency (the Finance department), but clear guidelines, criteria, and ceilings are lacking. There is a debt management information system with the federal government that tracks every foreign loan that has been contracted on behalf of any of the provincial governments, and the provincial government maintains their own records as pertaining to on-lending agreements signed for each loan as well as the relevant documentation on domestic debt contracted. On the basis of the above, a rating of 'B' is assigned to the sub-rating element (iii).

3.79 Using an M2 scoring methodology, the overall average rating for the indicator is therefore ‘B’.

PI-18 Effectiveness of payroll controls
Overall rating ‘C+’

3.80 The wage bill is usually one of the biggest items of government expenditure (about 80% of recurrent budget) and susceptible to weak control and corruption. This indicator is concerned with the payroll for public servants only. Wages for casual labor and discretionary allowances that do not form part of the payroll system are included in the assessment of general internal controls (PI-20). However, different segments of the public service may be recorded in different payrolls.

3.81 The payroll is underpinned by a personnel database (in some cases called the “nominal roll” and not necessarily computerized), which provides a list of all staff who should be paid every month and which can be verified against the approved establishment list and the individual personnel records (or staff files). The link between the personnel database and the payroll is a key control. Any amendments required to the personnel database should be processed in a timely manner through a change report, and should result in an audit trail. Payroll audits should be undertaken regularly to identify ghost workers, fill data gaps and identify control weaknesses.

3.82 The four dimensions assessed and the applicable sub-ratings assigned are as follows;

- Sub-rating element (i) - Degree of integration and reconciliation between personnel records and payroll data - ‘D’.
- Sub-rating element (ii) - Timeliness of changes to personnel records and the payroll –‘A’.
- Sub-rating element (iii) - Internal controls over changes to personnel records and the payroll - ‘C’.
- Sub-rating element (iv) - Existence of payroll audits to identify control weaknesses and/or ghost workers – ‘C’.

Score	Minimum requirements (Scoring methodology: M1)
A	(i) Personnel database and payroll are directly linked to ensure data consistency and monthly reconciliation. (ii) Required changes to the personnel records and payroll are updated monthly, generally in time for the following month’s payments. Retroactive adjustments are rare (if reliable data exists, it shows corrections in max. 3% of salary payments). (iii) Authority to change records and payroll is restricted and results in an audit trail. (iv) A strong system of annual payroll audits exists to identify control weaknesses and/or ghost workers.
B	(i) Personnel data and payroll data are not directly linked but the payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month’s payroll data. (ii) Up to three months’ delay occurs in updating of changes to the personnel records and payroll, but affects only a minority of changes. Retroactive adjustments are made occasionally. (iii) Authority and basis for changes to personnel records and the payroll are clear. (iv) A payroll audit covering all provincial government entities has been conducted at least once in the last three years (whether in stages or as one single exercise).
C	(i) A personnel database may not be fully maintained but reconciliation of the payroll with personnel records takes place at least every six months. (ii) Up to three months delay occurs in processing changes to personnel records and payroll for a large part of changes, which leads to frequent retroactive adjustments. (iii) Controls exist, but are not adequate to ensure full integrity of data.

	(iv) Partial payroll audits or staff surveys have been undertaken within the last 3 years.
D	(i) Integrity of the payroll is significantly undermined by lack of complete personnel records and personnel database, or by lacking reconciliation between the three lists. (ii) Delays in processing changes to payroll and nominal roll are often significantly longer than three months and require widespread retroactive adjustments. (iii) Controls of changes to records are deficient and facilitate payment errors. (iv) No payroll audits have been undertaken within the last three years.

3.83 The personnel records are maintained by the Services and General Administration department and the line departments of the provincial government of Balochistan. However, there does not exist a consolidated database of the employees / personnel at the provincial level, neither is there a linkage between the human resources database, the personnel records, and the payroll. Payroll is largely processed using manual systems as the PIFRA roll-out has yet to cover the entire province. Therefore, cross-matching of records cannot take place. As the integrity of the payroll is significantly undermined by lack of complete personnel records and a personnel database, sub-rating element (i) is therefore assigned 'D'.

3.84 In respect of sub-rating element (ii), there is clear evidence (supported by the Accountant General) that the personnel records are updated on timely basis and retroactive salary payments rarely exist across the province. On this basis the sub-rating assessed is 'A'.

3.85 While routine internal controls on personnel records and data exist, full integrity of the data is not assured as there is no direct integrated linkage of those records with the payroll as processed. A rating of 'C' is therefore assigned to sub-rating element (iii).

3.86 As regards sub-rating element (iv), since only partial payroll audits, on sample basis, are conducted by the provincial and district audit formations on annual basis, a rating of 'C' is assigned.

3.87 Overall, therefore, as per the scoring methodology, a rating of 'C+' is assigned to this indicator.

PI-19 Competition, value for money and controls in procurement

Overall rating 'D+'

- Sub-rating element (i) - Evidence on the use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases (percentage of the number of contract awards that are above the threshold) – D.
- Sub-rating element (ii) - Extent of justification for use of less competitive procurement methods – C.
- Sub-rating element (iii) - Existence and operation of a procurement complaints mechanism – D.

Dimension	Minimum requirements for dimension score. Scoring Methodology M2
(i) Use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases	Score = A: Accurate data on the method used to award public contracts exists and shows that more than 75% of contracts above the threshold are awarded on the basis of open competition. Score = B: Available data on public contract awards shows that more than 50% but less than 75% of contracts above the threshold are awarded on basis of open competition, but the data may not be accurate. Score = C: Available data shows that less than 50% of contracts above the threshold are awarded on an open competitive basis, but the data may not be accurate.

	accurate. Score = D: Insufficient data exists to assess the method used to award public contracts OR the available data indicates that use of open competition is limited.
(ii) Justification for use of less competitive procurement methods	Score = A: Other less competitive methods when used are justified in accordance with clear regulatory requirements. Score = B: Other less competitive methods when used are justified in accordance with regulatory requirements. Score = C: Justification for use of less competitive methods is weak or missing. Score = D: Regulatory requirements do not clearly establish open competition as the preferred method of procurement.
(iii) Existence and operation of a procurement complaints mechanism	Score = A: A process (defined by legislation) for submission and timely resolution of procurement process complaints is operative and subject to oversight of an external body with data on resolution of complaints accessible to public scrutiny. Score = B: A process (defined by legislation) for submitting and addressing procurement process complaints is operative, but lacks ability to refer resolution of the complaint to an external higher authority. Score = C: A process exists for submitting and addressing procurement complaints, but it is designed poorly and does not operate in a manner that provides for timely resolution of complaints. Score = D: No process is defined to enable submitting and addressing complaints regarding the implementation of the procurement process.

3.88 Significant public spending takes place through the public procurement system. A well-functioning procurement system ensures that money is used effectively and efficiently. Open competition in the award of contracts has been shown to provide the best basis for achieving efficiency in acquiring inputs for and value for money in delivery of programs and services by the government. This indicator focuses on the quality and transparency of the procurement regulatory framework in terms of establishing the use of open and fair competition as the preferred procurement method and defines the alternatives to open competition that may be appropriate when justified in specific, defined situations. The above three sub-rating elements (dimensions) have been assessed.

3.89 Although the regulatory framework exists for the procurement of Works, Goods and Services in the province, the procurement practices do not fall quite consistently in line with the international standards. Government of Balochistan through the Finance Department has prepared a draft legislative Bill for setting up Balochistan Public Procurement Regulatory Authority but this Bill is still in abeyance. As at present, no provincially established threshold exists. On the strength of this, a rating of 'D' is applied to the sub-rating element (i).

3.90 In respect of sub-rating element (ii), a score of 'C' is assessed as, in the absence of procurement law, rules and procedures that are, together, consistent with international best practices, justifications given for use of less competitive procurement methods can only be weak or missing.

3.91 As regards sub-rating element (iii), a score of 'C' is assigned because, while a process exists for submitting and addressing procurement complaints, it is designed poorly, compared with international best practices of complaint-redressal, and hence does not operate in a manner that provides for timely resolution of complaints.

3.92 An overall rating of 'D+' is therefore assessed for this indicator.

PI-20 Effectiveness of internal controls for non-salary expenditure

Overall rating 'C'

- Sub-rating element (i) - Effectiveness of expenditure commitment controls – 'C'.
- Sub-rating element (ii) - Comprehensiveness, relevance and understanding of other control rules/ procedures – 'C'.
- Sub-rating element (iii) - Degree of compliance with rules for processing and recording transactions- 'C'.

3.93 An effective internal control system is one that (a) is relevant (i.e. based on an assessment of risks and the controls required to manage the risks), (b) incorporates a comprehensive and cost effective set of controls (which address compliance with rules in procurement and other expenditure processes, prevention and detection of mistakes and fraud, safeguard of information and assets, and quality and timeliness of accounting and reporting), (c) is widely understood and complied with, and (d) is circumvented only for genuine emergency reasons. Evidence of the effectiveness of the internal control system should come from government financial controllers, regular internal and external audits or other surveys carried out by management. One type of information could be error or rejection rates in routine financial procedures.

Score	Minimum requirements (Scoring methodology: M1)
A	(i) Comprehensive expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations (as revised). (ii) Other internal control rules and procedures are relevant, and incorporate a comprehensive and generally cost effective set of controls, which are widely understood. (iii) Compliance with rules is very high and any misuse of simplified and emergency procedures is insignificant.
B	(i) Expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations for most types of expenditure, with minor areas of exception. (ii) Other internal control rules and procedures incorporate a comprehensive set of controls, which are widely understood, but may in some areas be excessive (e.g. through duplication in approvals) and lead to inefficiency in staff use and unnecessary delays. (iii) Compliance with rules is fairly high, but simplified/emergency procedures are used occasionally without adequate justification.
C	(i) Expenditure commitment control procedures exist and are partially effective, but they may not comprehensively cover all expenditures or they may occasionally be violated. (ii) Other internal control rules and procedures consist of a basic set of rules for processing and recording transactions, which are understood by those directly involved in their application. Some rules and procedures may be excessive, while controls may be deficient in areas of minor importance. (iii) Rules are complied with in a significant majority of transactions, but use of simplified/emergency procedures in unjustified situations is an important concern.
D	(i) Commitment control systems are generally lacking OR they are routinely violated. (ii) Clear, comprehensive control rules/procedures are lacking in other important areas. (iii) The core set of rules are not complied with on a routine and widespread basis due to direct breach of rules or unjustified routine use of simplified/emergency procedures.

3.94 The expenditure commitments are in some cases entered into without adequate budget provisions or without the actual cash being available. Since Treasury Officers in Balochistan operate only manual appropriation registers that are yet to be computerized and integrated with the payment processing and accounting module available under PIFRA SAP/R3, commitment controls, while they do exist, are less effective as they do occasionally get violated. The sub-rating element (i) is therefore rated

'C'. Also, despite the pre-audit function in place at the treasuries support internal controls at the time of payments, external audit findings conclude that controls are loose to a great extent, and are sometimes excessively applied. Therefore, sub-rating element (ii) is assessed a 'C'. There is some form of general compliance with the rules, but with the practice of sometimes initiating a public procurement process and publicly tendering without completing the proper required formalities, the level of compliance is weakened. Also, the Local Government Ordinance 2001 requires the District Governments to set up Monitoring Committees. Although the committees have been notified by the provincial and respective district governments, they have neither the capacity to deliver nor are practically functional. Since the core set of rules are not complied with on a routine and widespread basis due to direct breach of rules or unjustified routine use of simplified/emergency procedures. In case of development expenditure, commitments are made in many cases after the project document is approved from the relevant forum - DDWP and PDWP. Weak compliance normally arises mainly during the last two months of the fiscal year when departments, in a bid to expend the balances in their budgets before they lapse, attempt at circumventing the rules. Arising from the above, a rating of 'C' applies to the sub-rating element (iii).

3.95 Overall, therefore, a rating of 'C' applies to this indicator.

PI-21 Effectiveness of internal audit

Overall rating 'D'

3.96 The assessed dimensions and their applicable sub-ratings are as follows:

- Sub-rating element (i) - Coverage and quality of the internal audit function – 'D'.
- Sub-rating element (ii) - Frequency and distribution of reports - 'D'.
- Sub-rating element (iii) - Extent of management response to internal audit findings - 'D'.

3.97 Regular and adequate feedback to management is required on the performance of the internal control systems, through an internal audit function (or equivalent systems monitoring function). Such a function should meet international standards such as those of the Institute of Internal Auditors, in terms of (a) appropriate structure particularly with regard to professional independence, (b) sufficient breadth of mandate, access to information and power to report, (c) use of professional audit methods, including risk assessment techniques. The function should be focused on reporting on significant systemic issues in relation to: reliability and integrity of financial and operational information; effectiveness and efficiency of operations; safeguarding of assets; and compliance with laws, regulations, and contracts.

3.98 The provincial and district governments do not have a well functional internal audit system. It is assumed that the pre-audit function provides sufficient protection. Some form of audit is institutionalized in almost all the civil works departments at the provincial level including communication & works department, irrigation department, public health engineering and Balochistan Development Authority (BDA) to the extent of pre-auditing the transactions. The transactions are pre-audited by the treasury officers who, are in addition to their responsibilities, also maintain the district accounts in the absence of the district accounts officers. Mostly, the more usual form of internal audit is limited to some reviews done by pre-auditors deputed by the office of the provincial Accountant General prior to the DAGP audits.

Score	Minimum requirements (Scoring methodology: M1)
A	(i) Internal audit is operational for all provincial government entities, and generally meet professional standards. It is focused on systemic issues (at least 50% of staff time). (ii) Reports adhere to a fixed schedule and are distributed to the audited entity, ministry of finance and the SAI. (iii) Action by management on internal audit findings is prompt and comprehensive across provincial government entities.

B	(i) Internal audit is operational for the majority of provincial government entities (measured by value of revenue/expenditure), and substantially meet professional standards. It is focused on systemic issues (at least 50% of staff time). (ii) Reports are issued regularly for most audited entities and distributed to the audited entity, the ministry of finance and the SAI. (iii) Prompt and comprehensive action is taken by many (but not all) managers.
C	(i) The function is operational for at least the most important provincial government entities and undertakes some systems review (at least 20% of staff time), but may not meet recognized professional standards. (ii) Reports are issued regularly for most government entities, but may not be submitted to the ministry of finance and the SAI. (iii) A fair degree of action taken by many managers on major issues but often with delay
D	(i) There is little or no internal audit focused on systems monitoring. (ii) Reports are either non-existent or very irregular. (iii) Internal audit recommendations are usually ignored (with few exceptions).

3.99 So far, there is yet to be established an internal audit system at the provincial and district governments in Balochistan. As a result, since all the sub-rating elements (dimensions) score a 'D', the overall rating for the indicator is therefore a 'D'.

C(iii) Accounting, Recording and Reporting

PI-22 Timeliness and regularity of accounts reconciliation

Overall rating 'C+ / 'D'

- Sub-rating element (i) - Regularity of bank reconciliations – 'A' (Provincial government); 'D' (district government).
- Sub-rating element (ii) - Regularity of reconciliation and clearance of suspense accounts and advances – 'D' for all governments.

3.100 Reliable reporting of financial information requires constant checking and verification of the recording practices of accountants – this is an important part of internal control and a foundation for good quality information for management and for external reports. Timely and frequent reconciliation of data from different sources is fundamental for data reliability. Two critical types of reconciliation are (i) reconciliation of accounting data, held in the government's books, with government bank account data held by central and commercial banks, in such a way that no material differences are left unexplained; and (ii) clearing and reconciliation of suspense accounts and advances - i.e. of cash payments made, from which no expenditures have yet been recorded.

Dimension	**Minimum requirements for dimension score. Scoring Methodology M2**
(i) Regularity of bank reconciliations	Score = A: Bank reconciliation for all provincial government bank accounts take place at least monthly at aggregate and detailed levels, usually within 4 weeks of end of period. Score = B: Bank reconciliation for all Treasury managed bank accounts take place at least monthly, usually within 4 weeks from end of month. Score = C: Bank reconciliation for all Treasury managed bank accounts take place quarterly, usually within 8 weeks of end of quarter. Score = D: Bank reconciliation for all Treasury managed bank accounts take place less frequently than quarterly OR with backlogs of several months.

(ii) Regularity of reconciliation and clearance of suspense accounts and advances	Score = A: Reconciliation and clearance of suspense accounts and advances take place at least quarterly, within a month from end of period and with few balances brought forward. Score = B: Reconciliation and clearance of suspense accounts and advances take place at least annually within two months of end of period. Some accounts have uncleared balances brought forward. Score = C: Reconciliation and clearance of suspense accounts and advances take place annually in general, within two months of end of year, but a significant number of accounts have uncleared balances brought forward. Score = D: Reconciliation and clearance of suspense accounts and advances take place either annually with more than two months' delay, OR less frequently.

3.101 The provincial accounts are reconciled with the State Bank of Pakistan within 4 weeks of the end of the month. Daily bank scrolls are supplied by the fiscal agent of the State Bank – the National Bank of Pakistan. While this provides the information relating to what cash balances remain with the banking sector from their perspective, there continues to remain unreconcilable differences that span years. It is for this reason that the monetary and fiscal balances do not tally – i.e. the book balances as per the audited finance accounts always differ from those held at with the State Bank (the custodian of government funds). There are, however, serious gaps in reconciliations, especially in the case of District Governments. In respect of some assignment accounts and PLAs, bank reconciliation is not carried out for many years, and some of these accounts are maintained elsewhere in commercial banks. While reconciliations are generally carried out on timely basis at the provincial government level (and very rarely at the district government level), they do not achieve the desired outcome as material differences remain unexplained. On this basis of the above, notwithstanding the lack of resolution of differences, a rating of 'A' is assigned to sub-rating element (i) in the case of the provincial government, and a 'D' in the case of the district governments.

3.102 In respect of sub-rating element (ii), while reconciliation attempts are regular and continuous, the presence of persistent unexplained differences between the monetary and fiscal balances relegates the dimension to a 'D' rating.

3.103 In terms of the fiscal accounts, object-wise expenditure details for district governments are not maintained by the AG office. Therefore, unlike that for provincial departments, there is no reconciliation by the AG Office of object-wise expenditure (maintained by the AG Office - post-audit section DAD) and function-wise expenditures (maintained by the AG Office - Book Section).

3.104 Reconciliation of booked expenditures at the district treasuries with the expenditures made by the drawing and disbursement officers according to their memorandum records does not regularly take place. As a result, unreconciled differences persist, and such differences tend to amplify and further compound the unreconciled differences between the monetary and fiscal balances. The situation is most positively encouraging at the provincial level where the focal person of each department (on behalf of the principal accounting officer) is required to reconcile the department's monthly expenditure with the AG office by the 25th of the subsequent month.

3.105 An overall average rating of 'C+' is assigned to this indicator on the basis of M2 scoring methodology, using the provincial government assigned rating for sub-rating element (i). However a rating of 'D' will apply when this is diluted by the performance of the district governments as reconciliation is most weak in those governments, with a 'D' score for each of the dimensions.

PI-23 Information on resources received by service delivery units.

Overall rating 'D'

3.106 Problems frequently arise in front-line service delivery units providing services at the community level (such as schools and health clinics) in obtaining resources that were intended for their use, whether in terms of cash transfers, distribution of materials in kind (e.g. drugs and school books) or provision of provincially recruited and paid personnel. The intended resource provision may not be explicit in budget documentation, but is likely to form part of line ministries internal budget estimates preparation. Front line service delivery units, being furthest in the resource allocation chain, may be the ones to suffer most when overall resources fall short of budget estimates, or when higher level organizational units decide to re-direct resources to other (e.g. administrative) purposes. There may be significant delays in transfers of resources to the unit whether in cash or in kind. Tracking of such information is crucial in order to determine, if the PFM systems effectively support front-line service delivery. Information about the receipt of resources by service units is often lacking. The accounting system, if sufficiently extensive, reliable and timely, should provide this information, but frequently information on expenditures in the field is incomplete and unreliable and the flow of information disrupted by different and unconnected systems being used at different levels of government (most primary service delivery units typically being the responsibility of sub-national governments). Routine data collection systems, other than accounting systems (i.e. statistical systems), may exist and be able to capture the relevant information along with other service delivery information. Public Expenditure Tracking Surveys, inspections, audits (whether by internal or external auditors) or other ad hoc assessments may constitute alternative information sources.

Score	Minimum requirements (Scoring methodology: M1)
A	(i) Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by both primary schools and primary health clinics across the country. The information is compiled into reports at least annually.
B	(i) Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by either primary schools or primary health clinics across most of the country with information compiled into reports at least annually; OR special surveys undertaken within the last 3 years have demonstrated the level of resources received in cash and in kind by both primary schools and primary health clinics across most of the country (including by representative sampling).
C	(i) Special surveys undertaken within the last 3 years have demonstrated the level of resources received in cash and in kind by either primary schools or primary health clinics covering a significant part of the country OR by primary service delivery units at local community level in several other sectors.
D	(i) No comprehensive data collection on resources to service delivery units in any major sector has been collected and processed within the last 3 years.

3.107 The District Accounts Officers prepare and submit monthly Civil Accounts to the AG Office. The Treasury Officers at the district level provide only an abstract of payments along with copies of paid bills to the AG office (in respect of the provincial and federal government expenditures) for the latter's compilation of the district civil accounts. The civil accounts are provided by the AG office at the higher function and sub-function levels and do not include budgeted resources transferred to, or expenditures made by or on behalf of specific drawing and disbursement officers in primary schools or at primary health clinics across the province. Diversions made at the field level are even more difficult to track in the absence of a tracking system. Therefore, the score attributed to this indicator is a 'D'.

PI-24 Quality and timeliness of in-year budget reports.

Overall Rating ‘D+’

3.108 Ability to “bring in” the budget requires timely and regular information on actual budget performance to be available both to the Finance Department and Cabinet, to monitor performance and if necessary to identify new actions to get the budget back on track, and to the MDAs for managing the affairs for which they are accountable. The indicator focuses on the ability to produce comprehensive reports from the accounting system on all aspects of the budget (i.e. flash reports on release of funds to MDAs are not sufficient).

3.109 The three dimensions assessed and their respective sub-ratings are as below:

- Sub-rating element (i) - Scope of reports in terms of coverage and compatibility with budget estimates –‘D’.
- Sub-rating element (ii) - Timeliness of the issue of reports –‘D’.
- Sub-rating element (iii) - Quality of information –C’.

Score	Minimum requirements (Scoring methodology: M1)
A	(i) Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages. (ii) Reports are prepared quarterly or more frequently, and issued within 4 weeks of end of period. (iii) There are no material concerns regarding data accuracy.
B	(i) Classification allows comparison to budget but only with some aggregation. Expenditure is covered at both commitment and payment stages. (ii) Reports are prepared quarterly, and issued within 6 weeks of end of quarter. (iii) There are some concerns about accuracy, but data issues are generally highlighted in the reports and do not compromise overall consistency/ usefulness.
C	(i) Comparison to budget is possible only for main administrative headings. Expenditure is captured either at commitment or at payment stage (not both). (ii) Reports are prepared quarterly (possibly excluding first quarter), and issued within 8 weeks of end of quarter. (iii) There are some concerns about the accuracy of information, which may not always be highlighted in the reports, but this does not fundamentally undermine their basic usefulness.
D	(i) Comparison to the budget may not be possible across all main administrative headings. (ii) Quarterly reports are either not prepared or often issued with more than 8 weeks delay. (iii) Data is too inaccurate to be of any real use.

3.110 None of these dimensions is fully satisfied by the practice in Balochistan although there is some available information that is relied on. The Accountant General at the provincial level and DAOs/Treasury Officers at the district level prepare monthly civil accounts according to the budget chart of accounts, but only at the function and sub-function heads of account, and provide these to the Finance Department and spending departments, on average, between 15-30 days after month end. There are some concerns on accuracy due to reconciliations of data with the records of the spending departments as the line departments also keep a separate memorandum account of their expenditures and revenues. Information is usually gathered in the third quarter for revision of budget estimates in line with the budget format. The budget estimates for the last three financial years were revised in the last quarter of the respective years. The revised estimates made at the third quarter do not completely portray an accurate picture. Usually the statements from the departments tend to estimate more spending than actually likely in fear of getting their budgets cut as a result of prior lower utilization.

3.111 No quarterly reports are produced to track any deviation from the budget estimates and for corrective measures by the cabinet. The budget estimates are revised in the last quarter and are placed before the legislative assembly along with the budget for the new fiscal year for retrospective approval. The quality of the civil accounts, themselves, is rather poor as only actual booked expenditures are presented and no information on related appropriations for variance analysis purposes is provided. Since reconciliation remains an issue throughout the year, the reliability or accuracy of the data contained in the civil accounts is also questionable. On the basis of the above, sub-rating elements (dimensions) (i) and (ii) are rated 'D' respectively, and dimension (iii) is rated 'C'. Overall, therefore, the indicator is assessed "D+", using the MI scoring methodology.

PI-25 Quality and timeliness of annual financial statements

Overall rating 'C+'

3.112 The three sub-rating elements (dimensions) assessed and their scores are as follows:

- Sub-rating element (i) - Completeness of the financial statements – 'C'.
- Sub-rating element (ii) - Timeliness of submission of the financial statements – 'B'.
- Sub-rating element (iii) - Accounting standards used – 'C'.

3.113 Consolidated year-end financial statements are critical for transparency in the PFM system. To be complete, they must be based on details for all departments and agencies. In addition, the ability to prepare year-end financial statements in a timely fashion is a key indicator of how well the accounting system is operating, and the quality of records maintained. In some systems, individual departments and agencies issue financial statements that are subsequently consolidated by the Finance Department / Accountant General.

Score	Minimum requirements (Scoring methodology: M1)
A	(i) A consolidated government statement is prepared annually and includes full information on revenue, expenditure and financial assets/liabilities. (ii) The statement is submitted for external audit within 6 months of the end of the fiscal year. (iii) IPSAS or corresponding national standards are applied for all statements.
B	(i) A consolidated government statement is prepared annually. They include, with few exceptions, full information on revenue, expenditure and financial assets/liabilities (ii) The consolidated government statement is submitted for external audit within 10 months of the end of the fiscal year. (iii) IPSAS or corresponding national standards are applied.
C	(i) A consolidated government statement is prepared annually. Information on revenue, expenditure and bank account balances may not always be complete, but the omissions are not significant. (ii) The statements are submitted for external audit within 15 months of the end of the fiscal year. (iii) Statements are presented in consistent format over time with some disclosure of accounting standards.

D	(i) A consolidated government statement is not prepared annually, OR essential information is missing from the financial statements OR the financial records are too poor to enable audit. (ii) If annual statements are prepared, they are generally not submitted for external audit within 15 months of the end of the fiscal year (iii) Statements are not presented in a consistent format over time or accounting standards are not disclosed.

3.114 For sub-rating element (i), as a consolidated government statement is prepared annually but information on revenue, expenditure and bank account balances may not always be complete and accurate, a 'C' rating is assigned. In respect of sub-rating element (ii), because the annual accounts are prepared and the province's financial statements provided to audit within 10 months after the end of the year, a rating of 'B' is applicable. As regards sub-rating element (iii), as the financial statements are presented in a consistent format over time with some disclosure of accounting standards, a rating of 'C' is applied. The financial statements may not be complete to every extent, and may not contain information about other accounts maintained by departments and line agencies outside the core government system. The International Public Sector Accounting Standards (IPSAS) are however not applied but the AGP under his constitutional mandate has now notified the adoption of IPSAS Cash Basis of Financial Reporting, using IPSAS 2 format for the purpose, and this will become applicable for the province as of FY 2007/08.

3.115 The overall rating for the indicator is 'C+'.

PI-26 Scope, nature and follow-up of external audit

Overall rating 'D+'

3.116 A high quality external audit is an essential requirement for creating transparency in the use of public funds. Key elements of the quality of actual external audit comprise the scope/ coverage of the audit, adherence to appropriate auditing standards including independence of the external audit institution focus on significant and systemic PFM issues in its reports, and performance of the full range of financial audit such as reliability of financial statements, regularity of transactions and functioning of internal control and procurement systems. Inclusion of some aspects of performance audit (such as e.g. value for money in major infrastructure contracts) would also be expected of a high quality audit function.

3.117 The three dimensions assessed, and their corresponding scores are given below:

- Sub-rating element (i) - Scope/nature of audit performed (including adherence to auditing standards) – 'B'.
- Sub-rating element (ii) - Timeliness of submission of audit reports to legislature – 'D'.
- Sub-rating element (iii) - Evidence of follow up on audit recommendations – 'C'.

Score	Minimum requirements (Scoring methodology: M1)
A	(i) All entities of provincial government are audited annually covering revenue, expenditure and assets/liabilities. A full range of financial audits and some aspects of performance audit are performed and generally adhere to auditing standards, focusing on significant and systemic issues. (ii) Audit reports are submitted to the legislature within 4 months of the end of the period covered and in the case of financial statements from their receipt by the audit office. (iii) There is clear evidence of effective and timely follow up.
B	(i) Provincial government entities representing at least 75% of total expenditures are audited annually, at least covering revenue and expenditure. A wide range of financial

	audits are performed and generally adheres to auditing standards, focusing on significant and systemic issues. (ii) Audit reports are submitted to the legislature within 8 months of the end of the period covered and in the case of financial statements from their receipt by the audit office. (iii) A formal response is made in a timely manner, but there is little evidence of systematic follow up.
C	(i) Provincial government entities representing at least 50% of total expenditures are audited annually. Audits predominantly comprise transaction level testing, but reports identify significant issues. Audit standards may be disclosed to a limited extent only. (ii) Audit reports are submitted to the legislature within 12 months of the end of the period covered (for audit of financial statements from their receipt by the auditors). (iii) A formal response is made, though delayed or not very thorough, but there is little evidence of any follow up.
D	(i) Audits cover provincial government entities representing less than 50% of total expenditures or audits have higher coverage but do not highlight the significant issues. (ii) Audit reports are submitted to the legislature more than 12 months from the end of the period covered (for audit of financial statements from their receipt by the auditors). (iii) There is little evidence of response or follow up.

3.118 The external audit is an in-built feature of the provincial government's financial management system which is commissioned by the office of Auditor General of Pakistan (an independent entity), annually. The office of Director General (District Audit) has started functioning at Balochistan in addition to the Director General (Provincial Audit). For sub-rating element (i) - the Auditor General Ordinance 2001 explains the constitutional mandate of the Auditor General of Pakistan whereby he is responsible for auditing all government formations and government enterprises (the latter where they are 50% plus funded by the government). PIFRA has updated auditing methods and a district audit function has been established since 2004. As all entities of the provincial and district governments are audited annually, a full range of financial audits and some aspects of performance audit are performed. Since *some* of the province's audit formations already began using the Financial Audit Manual (2005) that is generally compliant with international auditing standards, as basis for their audits, a rating of 'B' applies for this dimension under the 'new audit methodology'. The rating would ordinarily have been 'A' if coverage, using the Financial Audit Manual included all government formations and enterprises which is not the case at the moment. So far, the Government has received almost 20 annual audit reports for the districts in Balochistan. However, there is still a huge backlog to be cleared as Balochistan now has 29 districts and the requirement is to produce 29 annual external audit reports. The annual audit for 2004-05 stands completed and the final audit reports, that were supposed to be made available after approval from the Auditor General of Pakistan, have yet to be released to the public. The external audit continues for the provincial departments with a delay of 1.5 years. These audit reports are presented to the legislative assembly after more than 12 months of completion of the year. The latest audit reports are not yet submitted for more than 12 months after receipt of the financial statements. As a result, a score of 'D' applies to sub-rating element (ii). As regards sub-rating element (iii), the Public Accounts Committee is currently reviewing the audit reports for audit year 2001, and there is some departmental follow up of audit observations. A rating for dimension (iii) is assessed as 'C'.

3.119 Using the M1 scoring methodology for this indicator, the overall rating is 'D+'.

PI-27 Legislative scrutiny of the annual budget law.

Overall rating 'D+'

3.120 The four dimensions assessed and the respective sub-ratings assigned them are as follows:

- Sub-rating element (i) - Scope of the legislature's scrutiny – 'B'.

- Sub-rating element (ii) Extent to which the legislature's procedures are well-established and respected – 'B'.
- Sub-rating element (iii) Adequacy of time for the legislature to provide a response to budget proposals, both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined) – 'D'.
- Sub-rating element (iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature. – 'B'.

3.121 The power to give the government authority to spend rests with the legislature, and is exercised through the passing of the annual budget law. If the legislature does not rigorously examine and debate the law, that power is not being effectively exercised and will undermine the accountability of the government to the electorate. Assessing the legislative scrutiny and debate of the annual budget law will be informed by consideration of several factors, including the scope of the scrutiny, the internal procedures for scrutiny and debate and the time allowed for that process.

Score	Minimum requirements (Scoring methodology: M1)
A	(i) The legislature's review covers fiscal policies, medium term fiscal framework and medium term priorities as well as details of expenditure and revenue. (ii) The legislature's procedures for budget review are firmly established and respected. They include internal organizational arrangements, such as specialized review committees, and negotiation procedures. (iii) The legislature has at least two months to review the budget proposals. (iv) Clear rules exist for in-year budget amendments by the executive, set strict limits on extent and nature of amendments and are consistently respected.
B	(i) The legislature's review covers fiscal policies and aggregates for the coming year as well as detailed estimates of expenditure and revenue. (ii) Simple procedures exist for the legislature's budget review and are respected. (iii) The legislature has at least one month to review the budget proposals. (iv) Clear rules exist for in-year budget amendments by the executive, and are usually respected, but they allow extensive administrative reallocations.
C	(i) The legislature's review covers details of expenditure and revenue, but only at a stage where detailed proposals have been finalized. (ii) Some procedures exist for the legislature's budget review, but they are not comprehensive and only partially respected. (iii) The legislature has at least one month to review the budget proposals. (iv) Clear rules exist, but they may not always be respected OR they may allow extensive administrative reallocation as well as expansion of total expenditure.
D	(i) The legislature's review is non-existent or extremely limited, OR there is no functioning legislature. (ii) Procedures for the legislature's review are non-existent or not respected. (iii) The time allowed for the legislature's review is clearly insufficient for a meaningful debate (significantly less than one month). (iv) Rules regarding in-year budget amendments may exist but are either very rudimentary and unclear OR they are usually not respected.

3.122 The legislature uses well established procedures to review and approve the revenue and expenditure budget proposals. The province's fiscal policies and aggregates are reviewed for the coming year as well as detailed estimates of expenditure and revenue are reviewed by the assembly during annual budget sessions. The assembly passes the budget after 10-14 days, and this has been the practice for the last three fiscal years, although the constitutional requirement provides for only 7 days. Despite this, enough time is not given to debate the budget in the legislative assembly as required by the indicator which specifies that at least a month should be given to debate the budget before passing by the assembly and before the start of the new fiscal year. However, procedures for budget review are well defined.

3.123 On the basis of the above, sub-rating element (i) is assessed a rating of 'B'. The legislature receives comprehensive budget documentation including extensive and well documented White Paper on budget and other reform matters as assessed under PI-6.

3.124 As regards sub-rating element (ii), despite the existence of simple procedures for the legislature's budget review which are largely respected, specialized committees are not used; therefore a rating of 'B' applies. The rules of the assembly although allow for extensive debates during the prescribed budget sessions.

3.125 In respect of sub-rating element (iii), the budget is passed by the assembly after 10-14 days, and this has been the practice for the last three fiscal years. The permissible criterion for adequacy of time – being at least one month – is not being observed by either the provincial and district legislative organs. Accordingly, the rating for this dimension is assessed 'D'. This is attributed, partly, to the finalization of federal transfers that are done not before mid-June each year, thus affecting the financing pattern included in the provinces's draft budget

3.126 On sub-rating element (iv), clear rules exist, but they allow high flexibility in exercising extensive administrative reallocations as well as expansion of total expenditure. As such, a rating of 'C' is applicable.

3.127 Overall, however, the indicator scores a 'C+'.

PI-28 Legislative scrutiny of external audit reports.
Overall rating 'C+'/'D' including districts.

3.128 The legislature has a key role in exercising scrutiny over the execution of the budget that it approved. A common way in which this is done is through a legislative committee(s) or commission(s), that examine the external audit reports and questions responsible parties about the findings of the reports. The operation of the committee(s) will depend on adequate financial and technical resources, and on adequate time being allocated to keep up-to-date on reviewing audit reports. The committee may also recommend actions and sanctions to be implemented by the executive, in addition to adopting the recommendations made by the external auditors.

3.129 For this indicator, the three sub-rating elements (dimensions) are assessed as follows:

- Sub-rating element (i) – timeliness of examination of audit reports (reports received within the last 3 years) - 'D'.
- Sub-rating element (ii) – Extent of hearings on key findings undertaken by the legislature – 'B'.
- Sub-rating element (iii) – Issuance of recommended actions by the legislature and implementation by the executive – 'B'.

Score	Minimum requirements
A	(i) Scrutiny of audit reports is usually completed by the legislature within 3 months from receipt of the reports. (ii) In-depth hearings on key findings take place consistently with responsible officers from all or most audited entities, which receive a qualified or adverse audit opinion. (iii) The legislature usually issues recommendations on action to be implemented by the executive, and evidence exists that they are generally

	implemented.
B	(i) Scrutiny of audit reports is usually completed by the legislature within 6 months from receipt of the reports. (ii) In-depth hearings on key findings take place with responsible officers from the audited entities as a routine, but may cover only some of the entities, which received a qualified or adverse audit opinion. (iii) Actions are recommended to the executive, some of which are implemented, according to existing evidence.
C	(i) Scrutiny of audit reports is usually completed by the legislature within 12 months from receipt of the reports. (ii) In-depth hearings on key findings take place occasionally, cover only a few audited entities or may include with ministry of finance officials only. (iii) Actions are recommended, but are rarely acted upon by the executive.
D	(i) Examination of audit reports by the legislature does not take place or usually takes more than 12 months to complete. (ii) No in-depth hearings are conducted by the legislature. (iii) No recommendations are being issued by the legislature.

3.130 There is a Public Accounts Committee (PAC) which is established by the provincial assembly. The mandate of the PAC is to scrutinize the public accounts on the basis of audited accounts and audit reports presented by the office of Auditor General of Pakistan, and recommend, if any, punitive actions or other remedial measures to be taken by the executive. The PAC is currently reviewing the audit reports for the audit year 2001. Although the Committee's deliberations on key findings covering *some* of the entities in the province take place as a routine, and are intensive and extensive, it normally takes more than 12 months to dispose of an annual audit report after receiving it. On the basis of these factors, sub-rating elements (dimensions) (i) and (ii) are rated 'D' and 'B' respectively. As regards sub-rating element (iii), since sanctions against public officials are often recommended but the implementation of the Committee's recommendations are weak (with only some of the recommendations implemented) due to weak enforcement arrangements, the assigned rating is a 'B'. Accordingly, the indicator is rated under the M1 scoring methodology as 'C+'. Where the district equivalent of PACs (being the Zila Accounts Committees) are considered in the dimensions, the overall rating of the province changes to a 'D' as the Zila Accounts Committees are either not yet established or are not functioning at all.

D Donor Practices

D-1 Predictability of direct budget support

Overall rating 'A'

- Sub-rating element (i) – Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body) – 'A'.
- Sub-rating element (ii) - In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates) – 'A'.

3.131 Direct budget support constitutes an important source of revenue for provincial government in many countries. Poor predictability of inflows of budget support affects the government's fiscal management in much the same way as the impact of external shocks on domestic revenue collection. Both the shortfalls in the total amount of budget support and the delays in the in-year distribution of the in-flows can have serious implications for the government's ability to implement its budget as planned.

Score	Minimum requirements (Scoring methodology: M1)
A	(i) In no more than one out of the last three years has direct budget support outturn fallen short of the forecast by more than 5%. (ii) Quarterly disbursement estimates have been agreed with donors at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 25% in two of the last three years.
B	(i) In no more than one out of the last three years has direct budget support outturn fallen short of the forecast by more than 10%. (ii) Quarterly disbursement estimates have been agreed with donors at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 25% in two of the last three years.
C	(i) In no more than one out of the last three years has direct budget support outturn fallen short of the forecast by more than 15%. (ii) Quarterly disbursement estimates have been agreed with donors at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 50% in two of the last three years.
D	(i) In at least two of the last three years did direct budget support outturn fall short of the forecast by more than 15% OR no comprehensive and timely forecast for the year(s) was provided by the donor agencies. (ii) The requirements for score C (or higher) are not met.

3.132 In Balochistan, direct budget support was received from the ABD under the Balochistan Resource Management Program (BRMP) and the Balochistan Devolved Social Services Program (DSSP). Some of the resources from the DSSP were utilized by the province in swapping or retiring expensive loans and some were passed over to service delivery units as performance-based grants. Overall, evidence from the Finance Department indicate that these budget support loans were (a) predictable and disbursements by the donor were received according to forecast, and (b) indicative disbursement amounts were predetermined and actual receipts have not fallen short of those predetermined amounts although they (FD) confessed that they were sometimes held-up on procedures for the release of the funds. On the basis of the above, both sub-rating elements (i) and (ii) are rated ‘A’.

D-2 Reporting on project/ program aid
Overall rating ‘C’

3.133 The two assessed dimensions and their respective sub-rating as given below:

- Sub-rating element (i) - Completeness and timeliness of budget estimates by donors for project support – ‘C’.
- Sub-rating element (ii) - Frequency and coverage of reporting by donors on actual donor flows for project support – ‘C’.

3.134 Predictability of disbursement of donor support for projects and programs (below referred to only as projects) affect the implementation of specific line items in the budget. Project support can be delivered in a wide range of ways, with varying degrees of government involvement in planning and management of resources.

Score	Minimum requirements (Scoring methodology: M1)
A	(i) All donors (with the possible exception of a few donors providing insignificant amounts) provide budget estimates for disbursement of project aid at stages consistent with the government's budget calendar and with a breakdown consistent with the government's budget classification. (ii) Donors provide quarterly reports within one month of end-of-quarter on the all disbursements made for at least 85% of the externally financed project estimates in the budget, with a break-down consistent with the government budget classification.
B	(i) At least half of donors (including the five largest) provide complete budget estimates for disbursement of project aid at stages consistent with the government's budget calendar and with a breakdown consistent with the government's budget classification. (ii) Donors provide quarterly reports within one month of end-of-quarter on the all disbursements made for at least 70% of the externally financed project estimates in the budget with a break-down consistent with the government budget classification.
C	(i) At least half of donors (including the five largest) provide complete budget estimates for disbursement of project aid for the government's coming fiscal year, at least three months prior its start. Estimates may use donor classification and not be consistent with the government's budget classification. (ii) Donors provide quarterly reports within two months of end-of-quarter on the all disbursements made for at least 50% of the externally financed project estimates in the budget. The information does not necessarily provide a break-down consistent with the government budget classification.
D	(i) Not all major donors provide budget estimates for disbursement of project aid at least for the government's coming fiscal year and at least three months prior its start. (ii) Donors do not provide quarterly reports within two month of end-of-quarter on the disbursements made for at least 50% of the externally financed project estimates in the budget.

3.135 The donors, in consultation with the government of Balochistan, forecast the cost estimates of projects they intend to finance, and these are agreed during project preparation and at negotiations. Since donor-funded projects (other than budget support programs/operations) in Balochistan are managed on 'ring-fenced' basis and use the donors' FM systems and budget codes rather than the government's, a form of parallel system budgeting, accounting, and reporting is established. Although donors do provide regular information on disbursement status to the government agencies implementing the project, there is no breakdown provided consistent with government budget classifications. On the basis of the above, sub-rating elements (i) and (ii) above are rated 'C' respectively.

3.136 Overall, therefore, the rating assigned to the indicator under the scoring methodology is 'C'.

D-3 Proportion of aid that is managed by use of national procedures

Overall Rating 'A'

3.137 National systems for management of funds are those established in the general legislation (and related regulations) of the country and implemented by the mainstream line management functions of the government. The requirement that national authorities use different (donor-specific) procedures for the management of aid funds diverts capacity away from managing the national systems. This is compounded when different donors have different requirements. Conversely, the use of national systems by donors can help to focus efforts on strengthening and complying with the national procedures also for domestically funded operations.

Score	Minimum requirements (Scoring methodology: M1)
A	(i) 90% or more of aid funds to provincial government are managed through national procedures.
B	(i) 75% or more of aid funds to provincial government are managed through national procedures.
C	(i) 50% or more of aid funds to provincial government are managed through national procedures.
D	(i) Less than 50% of aid funds to provincial government are managed through national procedures.

3.138 Since most aid to Balochistan (over 90% of aid funds disbursed on an annual basis) relate to budget support operations by the ADB under the BRMP and DSSP over the past 3 years, and the government –own systems are used to manage the aid funds, the rating for this indicator is ‘A’ There are of course a few investment projects in the province which are operating on ‘ring-fenced’ basis but their annual disbursement levels are insignificant.

Chapter 4: Government Reform Process

Balochistan Government reforms

4.1 The Government of Balochistan is determined to pursue a robust economic and human development path, as stated in the Balochistan Poverty Reduction Strategy Paper (BPRSP). However, it has limited resources and flexibility to support its development needs. A large stock of high-interest debt coupled with an overall constrained fiscal space have limited the scope for financing human development in Balochistan.

4.2 The Government has embarked upon a wide range of governance reforms for strengthening service delivery, especially with the newly created district governments. The core aspects of the reform agenda include: (a) implementation of the PIFRA, including the adoption of the New Accounting Model (NAM); (b) providing performance grants and related incentives to the district governments in the areas of policy, capacity building, municipal infrastructure and performance incentives; (c) increasing provincial revenues through the widening of the tax net; (d) Improving human development through focused investments in social sectors; (e) implementing the Local Government Ordinance in letter and spirit; (f) civil service reforms; (g) Access to Justice Program; (h) fiscal and financial transparency.

4.3 Overall reforms in public finance management (PFM), and including devolution and governance, are being supported by the Asian Development Bank (ADB) under the Devolution Support Program (DSP), Balochistan Devolved Social Services Program (B-DSSP), and Balochistan Resource Management Program (BRMP), as well as by the World Bank under the Project for Improvement of Financial Reporting and Auditing (PIFRA).

Institutional factors supporting reform planning and implementation

4.4 Balochistan's land mass and terrain continue to impair the effective, timely, and orderly roll-out of the PFM reform implementation strategies across the entire province. The pace of effective reform is contingent on (a) the related pace of implementation of the country-wide PFM project (PIFRA) in the province; (b) the human resource capacity in the area of PFM in the province and the amenability of the federation's public servants (accounting and accounting cadre) to relocate to the province; (c) the overall commitment of the government to implementing reforms; (d) the level of compliance of the provincial and district governments with the BLGO in supporting local governance and related accountability arrangements that go with it; (e) the resolution of the 'duality of control' of DAOs and TOs in order to reverse the existing complications on administrative control of the accounting function; and (f) the ease at which the audit formations are strengthened at the provincial, district, and TMA levels.

Annex 1: Summary Table of the Performance Indicators

Indicator	Scoring	Brief Explanation
Credibility of the budget		
1. Aggregate expenditure out-turn compared to original approved budget	B	Actual primary expenditure (excluding donor funded projects) for the three years deviated from budgeted expenditure by more than 10% in not more than 1 year
2. Composition of expenditure out-turn compared to original approved budget	C	In one out of the three years, the variance in expenditure composition exceeded 10%.
3. Aggregate revenue out-turn compared to original approved budget	A/B	Actual domestic revenue collection was below 97% of budgeted domestic revenue estimates in no more than one of the last three years. PEFA does not penalize for revenue over-performance against budget – a factor that, in itself, reflects poor budget credibility.
4. Stock and monitoring of expenditure payment arrears	D	No data is maintained in relation to stock of arrears.
Comprehensiveness and transparency		
5. Classification of the budget	A	The last two years' budgets were prepared under NAM COA.
6. Comprehensiveness of information included in budget documentation	B	The annual budget documentation discloses almost all of the information required by the indicator.
7. Extent of unreported government operations	D	The magnitude of unreported extra budgetary expenditures is not entirely certain, but the fiscal reports do not comprehensively cover expenditure information, on classified basis, on PLAs and government assignment accounts, neither do they cover donor-funded investment projects' expenditures). Direct Federal transfers to Districts (PKR 100 million each) not covered in the provincial fiscal reports too.
8. Transparency of inter-governmental fiscal relations	B+	Inter-governmental fiscal transfer rules are well documented and there is reasonable timeliness of reliable information to local governments under the PFC Award. Consolidation and reporting of fiscal data on general government is not quite strong however.
9. Oversight of aggregate fiscal risk from other public sector entities	D	There is no effective fiscal mechanism in place to capture fiscal risk information for local governments or SOEs. This makes a consolidated overview significantly incomplete for all levels of local government.
10. Public access to key fiscal information	C	Public access to procurement related issues is minimal. Audit reports are made available with a very significant time lag.
Policy based budgeting		
11. Orderliness and participation in the annual budget process	B+	Deadlines, orderliness, and participation in annual budget process are generally adhered to.
12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	D	No MTBF, coherent debt sustainability analysis, or sector strategies are in place.

Predictability and control in budget execution		
13. Transparency of taxpayer obligations and liabilities	C+	Taxpayer education is inadequate. The tax appeals systems are less fair, with a high incidence of discretion applied.
14. Effectiveness of measures for taxpayer registration and tax assessment	D+	While largely a federal subject, this is a weak area even for province-own revenue assignments. The overall control environment is not strong.
15. Effectiveness in collection of tax payments	D+	Information on arrears (assessments less collections) is incomplete and not clearly determinable.
16. Predictability in the availability of funds for commitment of expenditures	B+	Funds releases are front-loaded and this supports predictability of funds for commitment; however, cash flow forecasting is rather mechanistic.
17. Recording and management of cash balances, debt and guarantees	B	Bank balances figures shown by SBP, and records of FD and AG office are not fully reconciled on a regular basis thus creating significant differences between the fiscal and monetary balances.
18. Effectiveness of payroll controls	C+	There does not exist a consolidated database (HRMIS) of the employees / personnel at the provincial and district levels, and payroll audits and internal controls are weak.
19. Competition, value for money and controls in procurement	D+	While procurement reforms are in progress, the current state of play shows an overall weak performance.
20. Effectiveness of internal controls for non-salary expenditure	C	Monitoring Committees not operating at district levels in accordance with BLGO, and internal controls are limited to pre-audits that are sometimes over applied.
21. Effectiveness of internal audit	D	Internal audit function is non-existent.
Accounting, recording and reporting		
22. Timeliness and regularity of accounts reconciliation	C+/D	Inadequate efforts are made to reconcile the consolidated fund and the public account financial transactions. Full and fast-track implementation of PIFRA automated systems is required to support this endeavor.
23. Availability of information on resources received by service delivery units.	D	GoB is not collecting data on resources information provided to service delivery units in any major sector. In addition, there is an inherent weakness in generating essential financial information due to capacity constraints.
24. Quality and timeliness of in-year budget reports.	D+	Poor quality of civil accounts, particularly for district governments, where available, and timeliness remains an issue.
25. Quality and timeliness of annual financial statements	C+	Annual financial statements continue to be delayed due largely to weak capacity of treasuries.
External scrutiny and audit		
26. Scope, nature and follow-up of external audit	D+	The annual audits are completed late, audit certifications delayed, and audit report follow up remains weak. It takes more than 12 months for audit reports to be presented to the legislature.
27. Legislative scrutiny of the annual budget law	D+	Little time (less than one month) is allowed for the legislature to review proposals. Macro economic issues are not presented for approval along with the finalized budget proposals for revenues and

		expenditures.
28. Legislative scrutiny of external audit reports	C+/D	PAC lacks technical capacity to be able to efficiently conduct in depth hearing to analyze the issues independently and there is a substantial backlog of reports to be examined.
Donor practices		
D1 Predictability of direct budget support	A	Budget support operations are discussed in detail and agreed with government and timing of flow of resources is well pre-determined.
D2 Financial information provided by donors for budgeting and reporting on project and program aid	C	Donors' client-connection data / information not available to Balochistan and reports not predicated on the government chart of accounts but those of donors.
D3 Proportion of aid that is managed by use of national procedures	A	The percentage of the aid managed through government procedures is about 85%.

Annex 2: Sources of Information

A Persons involved in discussions

Finance Secretary, Department of Finance
Additional Finance Secretary, Department of Finance
Accountant General and Staff
Director, PIFRA, Balochistan
Director General, Provincial Audit, Department of the Auditor General of Pakistan
Director General, District Audit, Department of the Auditor General of Pakistan
Chief Economist, Department of Planning and Development
Secretary, PAC and Provincial Assembly
District Coordination Officers
District Accounts and Treasury Officers
Department of Local Government and Rural Development

B Documents referenced.

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Summary Diagnostics of

Areas of Weak Performance

Appendix I: Summary Diagnostics of Areas of Weak Performance

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I. A Brief Description of Challenge

II. Assessed Ratings for Weak PFM Indicators (Province and Donors)

III. Existing Reforms Underway in the Area of Public Financial Management

IV. Matrix for the Weak Performing PFM Areas and the Way Forward.

1. A Brief Description of Challenge

1. Balochistan social sector indicators are among the most challenging in South Asia: female primary school enrollment, for example, is just above 20%. Balochistan province remains largely untouched by the buoyant economic growth witnessed in the past few years in Pakistan. Balochistan is the country's largest province, with nearly 44% of its surface area and a thinly dispersed population of around 6.5 million. The rugged and inaccessible terrain, limited water resources for irrigation, large illiterate population, ethnic diversity, and traditional women's status are added challenges to economic growth and human development in Balochistan. Many of these factors increase the cost of providing social services in Balochistan. The predominantly agro-pastoral economy and severe droughts in the last decade have led to internal migration and increased the vulnerability of the poor and the women. Overexploitation of groundwater, the rapid disappearance of traditional surface water sources, and the limited harvesting of surface water have further aggravated water scarcity.

2. A Public Financial Management Performance Report (PFM–PR), prepared during August 2006 - March 2007 has provided a picture of the critical dimensions of current performance in Balochistan against standards for an open and orderly PFM system as identified by the measurement framework.

3. The Balochistan Poverty Reduction Strategy Paper (BPRSP) has highlighted the commitment of the government to pursuing a robust economic and human development path. However, the province has limited resources and flexibility to support its development needs largely due to its large stock of high-interest debt and constrained fiscal space.

4. The PFM Assessment has provided an updated snapshot picture of the critical dimensions of current performance in Balochistan against standards for an open and orderly PFM system as based on the benchmark measurement framework in the PFM cycle as follows:

i. Credibility of the budget - The budget is realistic and is implemented as intended
ii. Comprehensiveness and transparency – The budget and the fiscal risk oversight are comprehensive and fiscal and budget information is accessible to the public.
iii. Policy-based budgeting - The budget is prepared with due regard to government policy.
iv. Predictability and control in budget execution - The budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds, including transparency in procurement.
v. Accounting, recording and reporting – Adequate records and information are produced, maintained and disseminated to meet decision-making control, management and reporting purposes.
vi. External scrutiny and audit - Arrangements for scrutiny of public finances and follow up by executive are in place and operating.
vii. Donor use of country PFM systems.

5. A total of 31 Performance Indicators was examined and assessed – the first 28 representing the provinces owns PFM achievements while the last 3 represent the inference of donor-support operations on the overall PFM in the province.

6. On the basis of the discussed and agreed PFM-PR, this summary diagnostics of weak performance areas was prepared, focusing on the underlying causes and possible remedial measures of weaknesses in the low scoring areas as identified by C to D gradings highlighted in the PFM -PR. The summary annex was prepared using a questionnaire aimed at ensuring maximum

government involvement in the assessment process and in deciding on possible steps to improve weak-rated areas. This activity was supplemented by a stakeholders' workshop that reviewed the draft reports, and on the basis of which the Balochistan PFM Reform Strategy and Implementation Action Plan will be designed by the government itself. The workshop was led and driven by the provincial Government under the Steering Committee chairmanship of the Finance Secretary.

7. The summary diagnostics highlights specific PFM recommendations for supporting the improvement of the various dimensions of low performing PFM areas. The summary shows for each PI that rated poorly:

- the assessed rating, a description of the indicator, and the basis for making the rating;
- a description of the reasons for the poor rating; and
- A basic synopsis of the key steps or actions to be taken to improve performance in the indicator for each performance dimension. Areas requiring focused improvement interventions including requisites for strengthening of compliance with existing procedures have been highlighted. The focused interventions are further classified into initiatives which are in progress as well as the new initiatives required for filling the gap.

II. Assessed Ratings for Weak PFM Indicators (Province and Donors)

Indicator Number and Description	Scoring
2. Composition of expenditure out-turn compared to original approved budget	C
4. Stock and monitoring of expenditure payment arrears	D
7. Extent of unreported government operations	D
9. Oversight of aggregate fiscal risk from other public sector entities	D
10. Public access to key fiscal information	C
12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	D
13, Transparency of taxpayer obligations and liabilities	C+
14. Effectiveness of measures for taxpayer registration and tax assessment	D+
15. Effectiveness in collection of tax payments	D+
18. Effectiveness of payroll controls	C+
19. Competition, value for money and controls in procurement	D+

Indicator Number and Description	Scoring
20. Effectiveness of internal controls for non-salary expenditure	C
21 Effectiveness of internal audit	D
22. Timeliness and regularity of accounts reconciliation	C+/D
23. Availability of information on resources received by service delivery units.	D
24. Quality and timeliness of in-year budget reports.	D+
25. Quality and timeliness of annual financial statements	C+
26. Scope, nature and follow-up of external audit	D+
27. Legislative scrutiny of the annual budget law	D+
28. Legislative scrutiny of external audit reports	C+/D
D2 Financial information provided by donors for budgeting and reporting on project and program aid	C

III. Existing Reforms Underway in the Area of Public Financial Management

8. The Government has however embarked upon a wide range of governance reforms for strengthening service delivery especially with the newly created district governments. These include (a) implementation of the New Accounting Model (NAM) under PIFRA; (b) providing performance grants and other incentives to the district governments in the areas of policy formulation, capacity building; (c) increasing provincial revenues; (d) improvement in Information Management Systems; (e) improving human development through focused investments in social sectors;)f) effective implementation of the Local Government Ordinance; and (h) Access to Justice Program.

9. Overall reforms in public finance management (PFM) and in devolution and governance are being supported by the Asian Development Bank (ADB) under the Devolution Support Program (DSP), Balochistan Resource Management Program (BRMP) and Balochistan Devolved Social Services Program (B-DSSP), as well as by the World Bank under the Project for Improvement of Financial Reporting and Auditing (PIFRA).

IV. Matrix for the Weak Performing PFM Areas and the Way Forward

PFM PI	Dimensions Assessed	Causes for Rating Lesser than B	Areas for Focused Improvement Interventions
PI-1 to PI-3 PFM Out-turns	Aggregate expenditure out-turn compared to original approved budget. *PI-I* *Rating: 'B'*		These indicators reflect that the ultimate outturn of the PFM system is satisfactory except for the composition of expenditure out–turn in comparison with the approved budget. The result of these cannot be directly analyzed to identify reasons of such performance. These are like symptoms whereas the root causes of these variations could be found by analyzing other indicators which are relatively closer to the shortcomings in the PFM performance, leading to the respective low ratings. However, the main underlying improvement measures to be undertaken include the proper categorization of expenditures across functional classification levels in the budget document as well as on actual expenditure reporting. PIFRA, when fully rolled out would facilitate visibility of the actual cause to be managed as accounting classification errors will be minimized. Prudent resources allocation requires that resources are aligned with the changing sectoral requirements in any given year so as to maximize government interventions in sectors where adsorptive capacity is strong, and the outcomes can, on reflection, be strengthened. While this practice is not consistent with the objective good performance criterion under the PEFA framework, it does affect the realism or credibility of the original budget estimates. Hence, no separate interventions are required at this stage except that the Finance Department would necessarily need to limit the in-year re-appropriations at the high functional economic classification levels much within the approved budget to ensure it maintains its budget credibility. *Responsibility: (FD, PAOs, DDOs, DAOs)*
	Composition of expenditure out-turn compared to the original approved budget. *PI-2* *Rating: 'C'*	Variance in expenditure composition exceeded overall deviation in primary expenditure by 10 percentage points for only one out of the three years. Poor classification of actual expenditures across budgeted expenditure functions through accounting errors could be one cause. The other could be attributable to major virements or re-appropriations carried out during the year leading to actual expenditures over and above the original budgets in an unbalanced compositional manner. The FD mentioned that expenditure re-allocations become necessary during the year to allow sectors with higher absorptive capacities to expend additional resources in furtherance of the developmental objectives in the province.	
	Aggregate revenue out-turn compared to the original approved budget. *PI-3* *Rating: 'A'/'B'*		FD to ensure that the province-own revenues are realistically budgeted expected revenues in any given year so that the actual receipts almost equate the budgeted receipts.

PFM PI	Dimensions Assessed	Causes for Rating Lesser than B	Areas for Focused Improvement Interventions
PI-4 Stock and monitoring of expenditure payment arrears ***Rating: 'D'***	Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year). Prerequisite is the availability of data for monitoring the stock of expenditure payment arrears. *Rating: 'D'*	There is no reliable data on the stock of arrears from the last three years. Commitment or obligation accounting has yet to be adopted but some districts and TMAs do carry forward expenditures incurred to be paid in the following fiscal year as there may be less funds available to finance such expenditures by the current year end. While this is the case, there is no formal recording and reporting of the related expenditure arrears.	- Full implementation of the NAM/SAP system, which includes commitment accounting (PIFRA) and year-end reporting of outstanding commitments that have crystallized into obligations. - The system should enable the separate identification of the payment of arrears in the subsequent fiscal year from other routine payments pertaining to current fiscal year (PIFRA). *Responsibility: (AG, PIFRA Directorate)*

PFM PI	Dimensions Assessed	Causes for Rating Lesser than B	Areas for Focused Improvement Interventions
Pi-7 Extent of unreported government Operations ***Rating 'D'***	The level of unreported extra-budgetary expenditure, excluding donor funded projects. *Rating: 'D'*	(i) The level of unreported extra-budgetary expenditure (other than donor funded projects) constitutes more than 10% of total expenditure. (ii) Information on donor financed projects included in fiscal reports is seriously deficient and does not even cover all loan-financed operations The prevalence of PLAs as well as the assignment accounts related to domestic funded programs undermines the level of comprehensiveness of fiscal reports. Of particular significance is the lack of information in fiscal reports relating to donor-funded investment operations since most of these are 'ring-fenced' and do not feature part of core government activities that are captured in sufficient detail.	- All the accounts needs to be brought into the common Accountant General reporting system. Assignment and Personal Ledger Accounts are currently (mainly) outside the AG system of scrutiny and reporting. - Alternative expenditure tracking systems are possible but the multiplicity of such accounts does not augur for transparency and affects comprehensive and consistent reporting. Significant disbursement/reimbursements continue to be made by donors directly into assignment accounts established for the implementation of foreign-assisted projects and these would need to be brought into the regular government budgeting and accounting system. Currently, expenditures financed from assignment accounts are recorded by the public accounting system only if and when the project entities inform the Accountant General of the expenditures. Even there, there is reluctance by the public accounting office to include expenditures on programs that they were not privy to. PIFRA will support the migration from 'ring-fenced' financing reporting arrangements to mainstream government systems. - The Chart of Accounts of TMAs is being revised for consistency, on mapping basis, with the overall government CoA. This will facilitate capturing information on a uniform basis otherwise not available. The provincial government would need to facilitate the implementation of the chart as soon as possible. *Responsibility: (FD, AG, PAOs)*

PFM PI	Dimensions Assessed	Causes for Rating Lesser than B	Areas for Focused Improvement Interventions
PI-9 Oversight of aggregate fiscal risk *Rating: 'D'*	Extent of monitoring of AGAs and PEs (other public sector entities) *Rating: 'D'*	Since no arrangement is established in the FD to track and monitor the performances of Autonomous Government Agencies or Public Enterprises in the province, the determination of the province's overall fiscal risk becomes impossible.	- AGAs/PEs should be required to submit fiscal reports to the provincial government and/or to their governing bodies at least annually, and the FD should establish a Cell that would be responsible of monitoring the performance of these entities and consolidating them in the fiscal risk profile of the provincial government. The budget document should include a comprehensive statement on contingent liabilities (explicit or implicit) arising from the determination of the fiscal risks of the entities concerned. - The December 2005 draft B-DSSP – Additional Studies – Part 1 - Balochistan: Financial Management Assessment - includes many recommendations for improvements in PFM at lower level government bodies that should be adopted. *Responsibility: (FD)*
PI-10 Public access to key fiscal information *Rating: 'C'*	Public access to: (i) Annual budget documentations; (ii) In-year budget execution reports; (iii) Year-end financial statements; (iv) External audit reports; (v) Contract awards; and (vi) Resources available to primary service units. *Rating 'C'*	GoB satisfies only two of the six requirements under this indicator viz: annual budget documents are freely available to the public, and resources for primary service delivery units are also available as part of the annual budget documents. None of the remaining four requirements are currently complied with. In-year budget execution statements (including budget/actual comparisons) and year-end audited financial statements are under the purview of the AG and AGP respectively.	- Develop and implement a Public Disclosure Framework to authorize public access to key fiscal information (at least 6 categories assessed for PI-10) through various means of communication – a completely new initiative - Comply with BLGO 2001 which requires dissemination of information for local governments. *Responsibility: (FD, DCOs)*

PFM PI	Dimensions Assessed	Causes for Rating Lesser than B	Areas for Focused Improvement Interventions
PI-12 Multi year Perspective in fiscal planning, expenditure policy and budgeting *Rating 'D'*	(i) Preparation of multi - year fiscal forecasts and functional allocations – 'D'. (ii) Scope and frequency of debt sustainability analysis – 'D'. (iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure – 'D'. (iv) Linkages between investment budgets & forward expenditure estimates – 'D'.	No forward estimates of fiscal aggregates are undertaken. MTBF has not been institutionalized also. Debt Sustainability Analysis has also not been undertaken in the last three years. Sector strategies may have been prepared for some sectors, but none of them have substantially complete costing of development and recurrent expenditure. Budgeting for development & recurrent expenditure are separate processes (not integrated).	- Initiate and implement a MTFF and MTBF at the provincial departments and roll-out to districts. - Debt sustainability analysis needs to be undertaken periodically, especially in the light of the increasing debt profile of the province. - Integrate development and recurrent budgets – being best practice. *Responsibility: (FD, Provincial departments, District Govts)*
PI-13 Transparency of taxpayers obligations and liabilities *Rating: 'C+'*	Clarity and comprehensiveness of tax liabilities *Rating: 'C'*	- Tax liabilities are in principle well defined but there are data shortcomings and also discretionary powers (discretion in assessments, penalties and waivers) with the tax assessment officials. There is a manual taxpayers' database whose authenticity & accuracy cannot be determined with certainty.	- Review of legislation and procedures to make tax obligations more comprehensive and clear. - Reduce elements of administrative discretion in assessing tax liabilities through monitoring and surveillance as well as by tightening the laws. - Establish IT-based databases for tax administration. *Responsibility: (BoR, E&T)*
	Taxpayer access to information on tax liabilities & administrative procedures. *Rating: 'C'*	- The main provincial taxes are collected by the Board of Revenue, but while the information is largely easily accessible, tax payer education and widespread dissemination of information is lacking	- Tax payers' education programs should be initiated to alert them on their potential tax liabilities and tax administration procedures as effective tools in implementing tax reforms. *Responsibility: (BoR, E&T, FD)*
	Existence and functioning of a tax appeals mechanism *Rating: 'B'*	A tax appeals system of administrative procedures has been established, but needs substantial redesign to be fair, transparent and effective.	- Review the appeal processes for effectiveness, transparency, and fairness, and accordingly disseminate the revised mechanisms widely. - Provide taxpayers with accurate knowledge of their tax liabilities through transparent and integrated databases - AIT and UIPT. *Responsibility: (BoR, FD)*

PFM PI	Dimensions Assessed	Causes for Rating Lesser than B	Areas for Focused Improvement Interventions
PI-14 Effectiveness of measures for taxpayer registration and tax assessment *Rating: 'D+'*	Controls in the taxpayer registration system *Rating: 'C'*	Taxpayers are registered manually. Surveys of potential taxpayers are rarely carried out. Furthermore, the system of registration is not linked with other registration authorities.	- Computerization of properties and motor vehicle related taxes should be initiated (E&T). - Computerization of land records should also be initiated (BoR). - Appropriate surveys of taxpayers' potential should be conducted regularly.
	Effectiveness of penalties for non-compliance with registration and declaration obligations. *Rating: 'C'*	Penalties for non-compliance generally exist, but substantial changes to their structure, levels or administration are needed to give a real impact on compliance. Further UIPT surveys are not conducted as a regular activity.	- Review of legislation and procedures and ensure sanctions are enforced. - Institutionalizing UIPT surveys for validating tax claims (through sample selection). - Reduce options for applying discretion and increase certainty in the systems. *Responsibility: (BoR, FD)*
	Planning and monitoring of tax audit and fraud investigation programs *Rating: 'D'*	Planning and monitoring of tax audit programs are non-existent and the tax audits and fraud investigations are undertaken on an ad hoc basis.	- Introduce improved internal control measures. - Automate and integrate tax databases. - Introduce a comprehensive tax audit regime on modern lines following a risk-based approach the comprehensive tax audit. *Responsibility: (BoR, E&T, AGP, FD)*
PI-15 Effectiveness in collection of tax payments *Rating: 'D+'*	The collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last three fiscal years) *Rating: 'D'*	Management information with respect to tax arrears is not available. Recovery of government dues by the BoR needs considerable improvement. Provincial revenue receipts are badly affected by low recoveries. The recovery of government dues needs much improvement as evidenced by external audit reports. There are no arrears data; therefore, arrears accounts reconciliations are not carried out.	- Computerization of properties and motor vehicle and land records needs to be initiated so that arrears can be reliably computed and internal controls introduced. - Provide the necessary specialized training to staff deputed on recoveries of arrears *Responsibility: (BoR)*
	Effectiveness of transfer of tax collections to the Treasury by the revenue administration *Rating: 'B'*		

PFM PI	Dimensions Assessed	Causes for Rating Lesser than B	Areas for Focused Improvement Interventions
	Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury *Rating: 'D'*	There is a disconnect between the demand registers and accounting data of receipts. Reconciliations are less frequently carried out, and integrated databases are not established.	- Computerize taxes related to properties, motor vehicles and land, and develop interfaces with the PIFRA accounting system. - Improve the account management of taxpayers by assigning responsibilities and providing incentives to staff *Responsibility: (BoR and PIFRA)*
	Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment *Rating: 'A'*		
	Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs. *Rating: 'B'*		
PI-18 Effectives of payroll controls *Rating 'C+'*	Effectiveness of payroll controls Rating 'C'	There is no automated database of the provincial government employees that is linked to payroll.	- A complete database (HRMIS) of all the employees and pensioners should be developed at the provincial level. This should be subsequently linked with AG office's payroll processing unit under the PIFRA regime. *Responsibility: (PIFRA, AG, S&GAD)*

PFM PI	Dimensions Assessed	Causes for Rating Lesser than B	Areas for Focused Improvement Interventions
PI-19 Competition, value for money and controls in procurement *Rating: 'D+'*	Evidence on the use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases. *Rating: 'D'*	Sufficient data are not available on public contract awards as a proportion of all public contracts. No nationally established monetary threshold established for small purchases.	- The procurement module of SAP R/3 under PIFRA to be configured to track basic particulars of each contract, including total values, method of procurement etc. (PIFRA) - Set nationally established monetary thresholds for small purchases and update the procurement manual accordingly. - Display on websites and district notice boards all contracts awarded against tenders. - Improve performance of procurement systems by eliminating gaps identified in the OECD-DAC Baseline Procurement Performance Assessment. - *Responsibility: (C&W, PIFRA, FD)*
	Extent of justification for use of less competitive procurement methods *Rating: 'C'*	Justification for use of less competitive methods is often weak or missing.	- As above -
	Existence and operation of a procurement complaints mechanism. *Rating: 'D'*	While a procurement complaints process in place, it is poorly designed and does not offer prospects for timely resolution of complaints.	Design and Implement an effective mechanism to redress complaints with respect to procurement and notify these as part of the procurement rules. *Responsibility: (C&W, FD)*
PI-20 Effectiveness of internal controls for non-salary expenditure *Rating: 'C'*	Effectiveness of expenditure commitment controls. *Rating: 'C'*	Expenditure commitment control procedures exist but are partially effective and do not comprehensively cover all expenditures. The procedures are occasionally violated.	Maintenance of manual appropriation registers to be discontinued with the roll-out of PIFRA at DAOs/TOs and systems-based appropriation and commitment controls fully established. *Responsibility: (PIFRA, AG, FD)*

PFM PI	Dimensions Assessed	Causes for Rating Lesser than B	Areas for Focused Improvement Interventions
	Comprehensiveness, relevance and understanding of other internal control rules/ procedures. *Rating: 'C'*	Other internal control rules and procedures, consisting of a basic set of rules for processing and recording transactions, are understood by those directly involved in their application, but are not fully complied with during implementation. Some rules and procedures are excessively applied by the pre-audit staff at payment offices.	- The rules should be followed strictly but must not be excessive as to undermine service delivery efforts. - Training programs should be designed and implemented for the DDOs in line departments at provincial and district governments through AG office. *Responsibility:(FD, AG, PAOs, DDOs)*
	Degree of compliance with rules for processing and recording transactions *Rating: 'C'*	Misinterpretation of rules, use of undue discretion, non-compliance with procedures etc. are widespread at provincial and district levels.	- Revise the financial rules, treasury rules and related financial / internal control regulations. - Refresher courses to the executives / DDOs in financial regulations, internal controls and contracts management. *Responsibility: (FD, AG)*
PI-21 Effectiveness of Internal Audit *Rating: 'D'*	Coverage and quality of the internal audit function. *Rating: 'D'*	Internal audit focused on systems monitoring is almost non-existent. In fact, the internal audit function is being understood erroneously as a pre-audit function.	- The Controller General of Accounts issued an IA guidance manual which should be rolled-out to the province. - Duality of control of DAOs and TOs to be resolved through a policy directive. -Role of Local Fund Auditors to be redefined. -Internal audit functions to be established in all line departments and agencies and positions sanctioned. - Comprehensive training to be provided to all internal auditors. *Responsibility: (FD, AG)*
	Frequency and distribution of reports. *Rating: 'D'*	Reports are neither existent nor frequent as the function does not exist.	- Establish internal audit function in all line departments and document the outputs in terms of reporting and frequency of reports. *Responsibility: (FD, AG)*

PFM PI	Dimensions Assessed	Causes for Rating Lesser than B	Areas for Focused Improvement Interventions
	Extent of management response to internal audit findings. *Rating: 'D'*	Without the functions in place, no recommendations are made to which responses are to be given.	- As above – *Responsibility: (FD, AG)*
PI-22 Timeliness and regularity of accounts reconciliation ***Rating C+/D***	(i) Regularity of bank reconciliations – 'A' for Provincial and 'D' for Districts. (ii) Regularity of reconciliation and clearance of suspense accounts and advances – 'D'	While bank reconciliations are carried out at the provincial level on regular basis with receipt of daily bank scrolls from the banking sector, the situation is not quite favorable at the district levels as they manage several governments' accounts (federal, provincial, and district) Reconciliation and clearance of suspense accounts and advances take place at the close of the FY and after some two months' delay and reconciliation differences remain, thus creating significant differences between the monetary and fiscal balances.	- In the interim, before PIFRA is fully rolled out to all DAOs/TOs and interfaced with the banks and revenue units, a comprehensive reconciliation framework should be established in the province. The FD may need to issue a notification to this effect, supported by the AG of the province. - As above – *Responsibility:(FD, AG, PIFRA)*
PI-23 Availability of information on resources received by SDU ***Rating D***	Whether the routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by either primary schools or primary health clinics across most of the country	No comprehensive data collection on resources to service delivery units in any major sector has been collected and processed within the last 3 years. Budget execution reports at produced only at the functional classification levels and detailed economic classification are not provided to line departments and other service delivery units.	Budget execution reports at the detailed object levels, including economic classifications, should be produced monthly and supplied to the line departments and other service delivery units. These should replace the traditional civil accounts which are prepared and made available to FD within a month after the month end, albeit with some inaccuracies. *Responsibility: (FD, AG, PIFRA)*
PI-24 Quality and timeliness of in-year budget reports ***Rating: 'D+'***	Scope of reports in terms of coverage and compatibility with budget estimates. *Rating: 'D'*	Reports are generated by functions and not by detailed heads of CoA and budget/actual comparisons are not given.	- Include budget/actual comparisons in the reports. And also produce reports on the basis of the function, sub-function, major, and minor object heads as well as economic classifications, and supply to the FD and line departments and agencies. *Responsibility : (AG, DAOs, TOs)*

PFM PI	Dimensions Assessed	Causes for Rating Lesser than B	Areas for Focused Improvement Interventions
	Timeliness of the issue of reports. *Rating: 'D'*	While some reports are available within 15-21 days of the end of the month, most of the civil accounts produced are supplied after 21 days due essentially to the weak capacity of the DAOs/TOs to prepare even draft reports for AGs's compilation, as well as the communication problems affecting the far-flung districts.	-The book solution being adopted by the AG to support the preparation of timely reports should be implemented on fast-track basis. - A calendar defining the deadline for submission of abstracts of expenditures against budgets on a 'good practice' template should be notified by the AG and FD to all DAOs/TOs. -PIFRA roll-out should be accelerated in the province. *Responsibility: (AG, FD, PIFRA)*
	Quality of information. *Rating: C'*	Concerns on accuracy of data due to existence of un-reconciled transactions exist across all formations.	- Data quality is poor and the presentation of the reports does not conform to best practice. *Responsibility : (AG, DAOs, TOs)*
PI-25 Quality and timeliness of annual financial statements *Rating: 'C+'*	Completeness of the financial statements. *Rating: 'C'*	Consolidated government financial statement is prepared annually but information on revenue, expenditure and bank account balances are not always complete and accurate.	- Prepare a complete set of consolidated financial statements with proper disclosures as per requirement of IPSAS II Cash Flow Statement. - Institutionalize improved financial reporting practices through capacity building of systems at DAOs/TOs. *Responsibility : (AG, PIFRA)*
	Timeliness of submission of the financial statements. *Rating: 'B'*		
	Accounting standards used. *Rating: 'C'*	Statements are presented in a consistent format over time with some disclosure of accounting standards. The International Public Sector Accounting Standards (IPSAS) are not applied.	Fully implement IPSAS cash basis before attempting to implement IPSAS accruals. *Responsibility : (AG)*
PI-26 Scope, nature and follow-up of external audited *Rating: 'D+'*	Scope/nature of audit performed (incl. adherence to auditing standards). *Rating: 'B'*		

PFM PI	Dimensions Assessed	Causes for Rating Lesser than B	Areas for Focused Improvement Interventions
	Timeliness of submission of audit reports to legislature. *Rating: 'D'*	The latest audit reports take more than 12 months to reach the legislature after receipt of the financial statements from the AG. The quality review process at the AGP takes too long and delays finalization of the draft audit reports.	-Speed up the quality review processes and include it as part of the audit process in the field. -Treat each certification audit separately for reporting rather than wait for all reports to be first finalized and quality reviewed. -Ensure adequately qualified audit senior staff -Finalize TMA etc audit arrangements - Fast track roll-out of implementation of the new Financial Audit Manual. *Responsibility : (AGP, PIFRA)*
	Evidence of follow up on audit recommendations. *Rating: 'C'*	The Public Accounts Committees' follow up needs to be geared up.	- Enlist internal audit to be responsible for following up recommendations highlighted in the audit reports. - Strengthen the staffing level and capacity at the PAC Secretariat. -Establish, through notification, the Zila Accounts Committees of all districts and monitor their performance.
PI-27 Legislative scrutiny of the annual budget law ***Rating: 'D+'***	Scope of the legislature's scrutiny. *Rating: 'B'*		
	Extent to which the legislature's procedures are well-established and respected. *Rating: 'B'*		

PFM PI	Dimensions Assessed	Causes for Rating Lesser than B	Areas for Focused Improvement Interventions
	Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle. *Rating: 'D'*	The budget is passed by the assembly after 10-14 days, and this is less than the one month criterion. Less than one month is provided to the legislature to debate the budget. The legislature is not involved in reviewing the Budget Call Circular	- Use estimates/appropriation committees - Increase the time available for the legislature to examine the draft annual. - Capacity building of parliamentarians should be undertaken as is being done in the other provinces.
	Rules for in-year amendments to the budget without ex-ante approval by the legislature. *Rating: 'B'*		
PI-28 Legislative scrutiny of external audit reports ***Rating: 'C+/D'***	Timeliness of examination of audit reports by the legislature. *Rating: 'C+'*	PAC usually takes more than 12 months to dispose of an annual audit report after receiving it. However, they deliberate on the audit reports extensively. Punitive actions are recommended but the implementation needs to be streamlined. A significant backlog of outstanding audit observations remains and this impacts the financial accountability in the province. Capacity issue of PAC secretariat to support PAC deliberations.	- Provide technical assistance to support the strengthening of the PAC in reviewing the backlog of outstanding audit observations. - Apply the timetable rules: The Audit Reports should be presented before the Public Accounts Committee of the Province for discussion and approval/ suitable actions. - Implement *Zila* Accounts Committee reviews of district audited accounts and audit reports. - Ensure immediate review of the most recent report. Allocate all older reports or older pending or conditionally settled paragraphs to subcommittees of the PACs or to DACs. - Increase staffing strength of PAC secretariat. - Ensure that *Zila* Accounts Committees receive support and assistance from DG (District Audit). - Improve committee business rules and guidelines based on experience in other jurisdictions. *Responsibility : (Assembly Secretariat, Nazims, FD, AGP)*

PFM PI	Dimensions Assessed	Causes for Rating Lesser than B	Areas for Focused Improvement Interventions
D-2 Financial information provided by donors for budgeting and reporting on project and program aid ***Rating C***	(i) Completeness and timeliness of budget estimates by donors for project support *Rating 'C'.* (ii) Frequency and coverage of reporting by donors on actual donor flows for project support *Rating 'C'.*	Donor-funded projects other than budget support operations are virtually all 'ring-fenced' and use donor-designed budgeting and reporting systems rather than those of the government, including government budget classification codes. While donors provide information relating to disbursements, this is not done within two months of the end of the quarter and are provided not on government budget classifications but the donor classifications agreed during project preparation.	- Donors to harmonize and align their procedures in accordance with government systems, especially when PIFRA systems are fully rolled out. - Donors to prepare projects using government's expenditure classification norms that are already consistent with GFS. *Responsibility (Donors, FD)*